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Nation's Business®

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MANAGING YOUR BUSINESS



PHOTO: WILLIAM DEKAY

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Cover Design: Hans A. Baum

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COMMENTARY

Letters

Against Mandated Benefits

Our company employs 25 people full time. We are 100 percent against the government mandating any kind of benefits for employees ["Accept New Plan On Mandatory Leave?" Where I Stand, September].

We offer all full-time employees Blue Cross-Blue Shield medical insurance, which costs us almost $2,000 per month. We pay approximately $2,000 per week in withholding and Social Security taxes. It would be a financial strain on us for an employee to take three months of personal leave.

Each of our employees covers a key position. None of these positions could be held vacant for a three-month period, and we could not financially afford to train a temporary employee to cover a key position.

Also, it would be a financial strain to continue insurance benefits for any employee not "producing" for our company.

If any bill mandating parental and medical leave is passed, it will affect the type of people we hire. We may change our policies and not have any full-time employees, and we would hire people as independent contractors, with no benefits to concern us.

We are not against families and children, but neither are we capable of offering benefits for the employee who has a negative effect on our cash flow. We are not in business simply to provide jobs and support the family unit. We are in business to make money, and, therefore, we are against governmental mandates that affect this goal.

Carol J. Sappington
Vice President
(Mother of Six Children)
Aangstrom Precision Corporation
Mt. Pleasant, Mich.

Paying Our Way

We subscribe to many business publications on the basis that one good idea or theory pays for the subscription many times over. We feel that we hit the jackpot in your September issue with its many informative articles.

Two of the most meaningful to us as a small, third-generation family business were Joan Szabo's "Make Sure Your Business Outlasts You" and Pam Carroll's "Good Followers Are Worth Training."

Karl Esslinger
St. Paul

Send letters to Editor, Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062, and include your phone number. Letters addressed to the Editor will be considered for publication unless the writer requests otherwise, and they may be edited and condensed.*



Yes, But . . .

Karen Berney's article "PC Software's Next Big Step" [September] contains a number of statements concerning networks and MS-DOS that are not entirely accurate.

Some software, such as Lotus 1-2-3 release 2.01, already supports expanded memory. Lotus will support up to 4 megabytes past the 640 kilobyte DOS limit, if you have a memory card that conforms to the Lotus/Intel Expanded Memory Specification.

Memory constraint is not the reason that DOS is not a multitasking operating system. The reason is that the capability has never been written into the system so the PC user can take advantage of it.

Randy L. Cross
Fort Smith, Ark.

It's both ironic and amusing that you illustrated your article on IBM's OS/2 operating system for personal computers with a photo from Compaq Corporation, a small business (compared with IBM) that is nevertheless giving Big Blue fits in the marketplace.

Jack E. Blake
Madison, Wis.

A Rebuttal From The New Majority

I am writing in response to D. Scott Beehler's letter ["The Work Force's

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Leonard L. Rippa

New Majority," September] regarding Sharon Nelton's July article, "Meet Your New Work Force."

Why is it that whenever anyone proposes something that might benefit minorities and women, some people assess it as antibusiness and against white males?

I had not heard statistics relative to women and minorities outnumbering white males in the work force, but I have heard over and over that women on the average earn about half of what men earn.

I have been in the work force for over 15 years and have seen many dedicated women and minorities give their employers more than 100 percent effort without any special considerations. Perhaps Mr. Beehler should hire a few.

Isabella D. Pulliam
Syracuse, N.Y.

Metaphorically Speaking

Let me respond to the reader in the September issue ["Up In Arms Over Divorce"] who found the photo of the gun-toting couple in the July issue horrifying.

I understood the picture as a metaphor for a duel or fight, an appropriate symbol for the article.

Some people need everything spelled out for them, every detail that their eyes do not see, their ears do not hear and their minds do not understand. But these people speak loudly and often, hiding behind words like "we," "our generation" and, more dangerous, "rights," "discrimination" and "Constitution." I feel they show nothing less than a lack of common sense and decent education.

By the way, a duel was never considered to be a murder.

Ivo G. Kucera
Palo Alto, Calif.

One For The Taxpayer

It was a pleasure to read A. J. Cook's article "The Roof Is Off Tax Shelters" [August].

As the article points out, by citing the *Taube* and *Wein* cases, the Internal Revenue Service does not win all the time. As counsel for *Taube*, I know that the case has received no publicity whatsoever from the media. Tax experts have told me that it is one of the best Tax Court victories for taxpayers in this decade. You are to be commended for your good judgment in publishing the article.

Larry Kars
New York

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ENTREPRENEUR'S NOTEBOOK

Doing Good Business Even At The End

By Carol K. Watts

Volumes have been written to assist entrepreneurs in starting and maintaining their businesses. But almost nothing is in print to tell us how to disband a business profitably when circumstances force that step. Still, I managed to close my business successfully, relying on my own instincts and experience and word-of-mouth advice from other retailers who had gone the same route.

My career as the owner of a retail business had begun in 1980, when my husband and I purchased from my parents a specialty shop in the downtown business district of Camdenton, Mo., a city of 2,000 in a business area with about 20,000 people. The store included men's and children's departments and a women's specialty section. My husband had his own career as a psychiatric social worker, and I ran the business.

I had run a branch of the business in Columbia, Mo., while finishing college in my late 20s. So when my parents, who had received a nice income from the store, decided to sell, my husband and I agreed to buy it.

The geography of this area had a lot to do with what happened. Camdenton is on the edge of the Lake of the Ozarks, which has hundreds of miles of shoreline and has traditionally been the center of a vast tourist industry with accompanying commercial development. But that development was accelerating about the same time I took over the store. Retailing in Osage Beach, just 10 miles from Camdenton, grew explosively.

As I began my new career as the full-time owner and manager of a retail store, I found intense competition. I dropped the men's and children's departments, making the store a women's specialty shop.

Competition came from many directions. Five malls were built in the area over a few years, the most recent containing 100,000 square feet with another 100,000 to be added in the fall of 1988. My store was a lucrative little business until 1987, when I really started feeling the competitive pressure.

As a working mother, I had a benchmark dollar figure at which the business was worth the effort, frustrations, sleepless nights and sense of missing out on a lot with my family. But I also had a dollar level at which the business was not worth it, and my income fell to that level.

I never even considered selling. The area had become overretailed, and I could only show a prospective buyer declining gross figures. So the only alternative was to sell the merchandise and fixtures and go out of business. But we did not rush into this. We spent a year formulating a plan that would enable us to close up shop in an orderly manner: paying off the debt my parents were carrying from their sale to us and taking some money with us. To do this, I had to do more than just sell the remaining inventory at cut prices. The final sale had to generate as much income as possible.

My first move was to join an off-price buying service, which saved me far more than it cost in monthly fees. I made several trips to New York to order first-quality merchandise at 25 to 50 percent off wholesale.



Long-range planning and careful work with a calculator paid off. We netted in seven weeks what it had previously taken us three years to earn!

The next major challenge was deciding what volume to anticipate so I could plan a budget. That's where the word-of-mouth advice came in. Through the buying service, I had met numerous retailers who had held going-out-of-business sales in the past. The consensus seemed to be that, for a two-month sale, you should plan on 2½ times the normal gross the first month and twice the second month.

Actually, I missed the mark a bit on ordering. We kicked off the sale Memorial Day weekend and grossed in four days what we had grossed the previous May in the entire month. I was on the phone reordering immediately. Even with some restocking, our planned nine-week sale lasted only seven weeks before the cupboard was bare. Instead of doubling the norm, we were running at triple.

Timing was a critical element. Our location in a tourist area made Memorial Day ideal for launching the sale because the summer months had always been our strongest. If you are going to double or triple your sales volume, it's always good to work off the highest possible base.

In projecting cash flow for the final months, we built in higher operating expenses—three times normal to pay extra sales clerks, higher utility bills and advertising expenses.

Long-range planning and careful work with a calculator paid off. We netted in seven weeks what it had previously taken us three years to earn!

While the going-out-of-business sale was highly profitable, the response did not change the basic economic factors that prompted it.

I don't regret the years I put into the business, but I'm not sorry to be out of it. My children were shortchanged—I worked weekends, and was always the first to arrive at the store and the last to leave. My husband was very supportive. He did the things I would have been doing—the chauffeuring and the school activities and the rest of it. Now it's my turn to do them. ■

Carol K. Watts was the owner and manager of a retail store in Camdenton, Mo., for eight years.

Readers are invited to contribute to Entrepreneur's Notebook, a forum in which owners and/or managers of smaller to medium-sized businesses discuss their experiences. Write to: Editor, Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062.*

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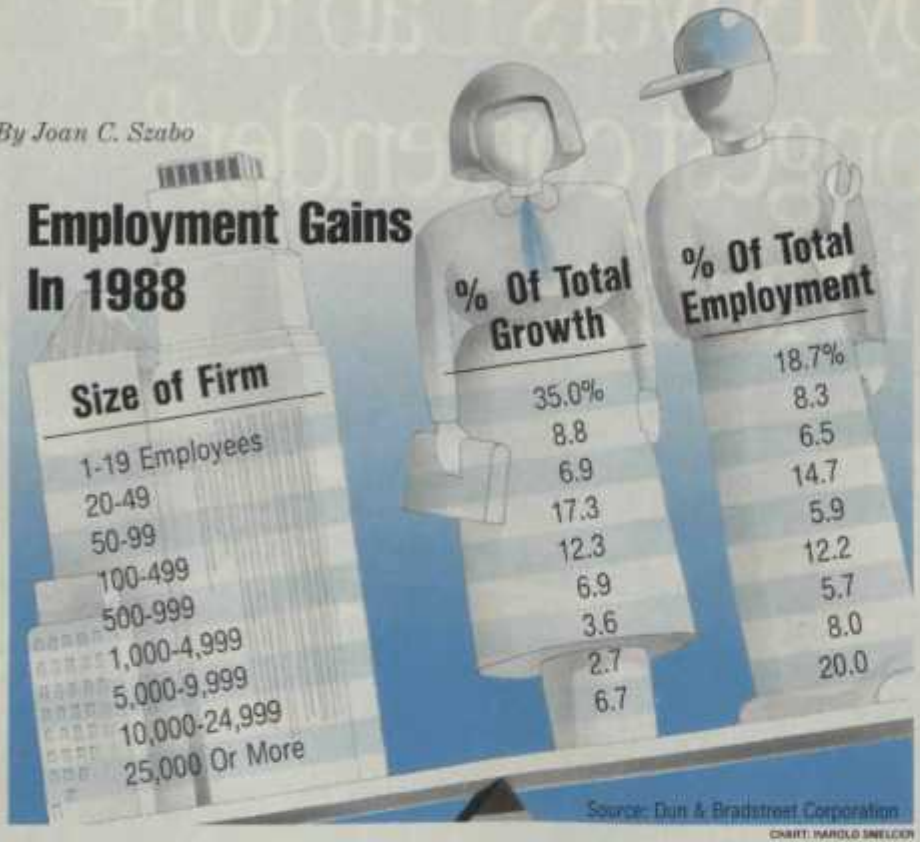
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Small-Business Update

By Joan C. Szabo



Small Firms Fuel New-Job Engine

When the final tallies are made months from now on job creation throughout 1988, the figures are likely to show that small business was the driving force behind job growth, according to a recent survey of companies' employment expectations.

Companies with 99 or fewer employees expect to generate half of the total of 2.4 million new jobs created this year, according to the annual Dun & Bradstreet survey. Firms with fewer than 20 people expect to generate the largest share of new jobs, or about 35 percent of the total. That percentage is approximately the level of job creation attributed to companies of that size last year.

Companies with 20 to 99 workers say they expect they will create 15.7 percent of the new jobs, a figure well below the nearly 22 percent registered in that category in 1987. D&B says the weaker job-growth performance in firms with 20 to 99 employees is partly attributable to the decline in entrepreneurial activity last year. Business starts dropped 7.7 percent in 1987, after several years of growth.

D&B's survey is based on a sample of 5,000 U.S. companies selected from its business-information file of more than 9 million businesses. The companies in the sample statistically represent the distribution of U.S. businesses by size and industry.

On an industry basis, the D&B survey reports that the largest portion of job growth this year is expected to be in the wholesale and retail sectors, with 29.6 percent of the companies surveyed planning to add to their work forces.

Businesses in the service sector expect continued strong employment gains, accounting for about 28 percent of total job growth.

The forecast that more than 2.4 million new jobs will be created in the United States in 1988 is down from about 3 million jobs actually created in 1987.

Guidance On Plant Closing

Employers tackling the formidable tasks of interpreting and abiding by the recently enacted law on plant-closing notification can find help in a newly released publication from the U.S. Chamber of Commerce.

The booklet, "The New Federal 'Plant Closings' Law: What Employers Should Know," explains the law's requirements, the exceptions, exemptions and penalties. It also includes answers for the most common questions that employers ask about the new law.

Under the law, known as the "Worker Adjustment and Retraining Notification Act," employers will be required to give workers 60 days' notice before closing a facility or an "operating unit," or before implementing a mass layoff. Beginning Feb. 4, 1989, all plant closings or layoffs—even many affecting as few as 50 workers—will be covered by the new law.

Companies wanting to become familiar with the provisions of the new law can obtain single copies of the Chamber's booklet free. The bulk-order price is $20 per dozen for Chamber members and $33 for nonmembers. To place your order, call toll-free 1-800-638-6582. In Maryland, the number is 1-800-352-1450. Please request publication #0100.

Survival Rates For Start-Ups

Four out of five new businesses fail within their first five years, right? Wrong, say two researchers who recently presented their findings at a conference in Canada. They say the failure rate actually is 3 out of 5, substantially lower than has been widely believed.

Using a data source developed by the Small Business Administration, Bruce D. Phillips of SBA and Bruce A. Kirchhoff of Babson College, in Babson Park, Mass., found that an average of 39.8 percent of new firms survive six or more years.

In addition, survival rates vary by industry. Manufacturing has the highest rate at 46.9 percent, and construction has the lowest, 35.3 percent.

The researchers, who set forth their findings at the Babson Entrepreneurship Research Conference in Calgary, Alberta, found that survival rates more than double for firms that grow. For example, a small amount of expansion boosts the average survival rate to 66.3 percent.

Phillips and Kirchhoff also discovered that the earlier that growth occurs in the life of a business, the better the chance of survival.

"Entrepreneurs should be advised to plan to grow if they wish to improve their chances of survival," the two researchers say. They note, however, that on average, only 10 percent of firms



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This Month's NB TIPS

Business people who use the services of attorneys can find useful hints in a new book, *100 Ways To Cut Legal Fees And Manage Your Lawyer.*

The 150-page paperback explains how to find a quality lawyer to handle specific needs and how to structure and control legal costs.

It also outlines a business person's rights and responsibilities as a client and a lawyer's legal and ethical obligations to his or her client.

The book is published by the National Chamber Litigation Center, the nonprofit law firm of the U.S. Chamber of Commerce. The Center litigates important public-policy issues on behalf of business.

To order your copy, send $10.95 to the National Chamber Litigation Center, 1615 H Street, N.W., Washington, D.C. 20062.

Small-business owners interested in exporting opportunities will find the revised edition of the "Exporter's Guide To Federal Resources For Small Business" is a valuable resource. It includes summaries of federal export-assistance programs, a list of agency field contacts and a bibliography of major agency publications.

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show growth in the first four years. But by the sixth year, 34.3 percent of the firms show growth, and over 50 percent show growth within eight years.

IRS Testing New Procedure

The Internal Revenue Service is testing a new procedure to help expedite the distribution of employer identification numbers to newly created companies.

When launching a business, company owners are required to obtain an employer identification number for tax purposes. The normal procedure is to complete Form SS-4, Application for Employer Identification Number, and file it with the IRS.

The IRS then processes the application and returns the duplicate portion of the form to the applicant with the ID number stamped on it.

"One problem with this procedure," notes the Research Institute of America's "Weekly Alert," the RIA's regular tax-advisory-service report, "is that it may be necessary for the taxpayer to file tax returns or to make tax payments before the ID number is assigned."

To overcome this difficulty, the IRS is allowing its service centers to test the procedure of assigning identification numbers by telephone. Of the 10 IRS centers located across the United States, three are trying the telephone application process known as Tele-TIN, says Wilson Fadley of the IRS.

The Fresno, Calif., IRS center, the first to experiment with the process, instituted Tele-TIN in October, 1986, and reports that it is working successfully. IRS centers in Austin, Tex., and Cincinnati recently began trying the new procedure.

Manufacturing Climate: Fair And Mild In New Hampshire

Manufacturers would do best in the state of New Hampshire, according to the annual manufacturing climate study by Grant Thornton, a firm of certified public accountants and management consultants.

The New York-based firm ranks states on factors that manufacturers consider most important to their businesses. The factors include worker productivity, union strength and the costs of workers' compensation.

Each of the contiguous 48 states is placed in one of two groups according to whether it has high or low manufacturing intensity. (The report does not include Alaska and Hawaii because their substantially different economies are not easily compared with the economies of the other states.)

Among states with high manufacturing levels, New Hampshire was rated as having the most favorable manufacturing climate. Among states with low manufacturing intensity, South Dakota was ranked first.

Favorable state and local fiscal policies in New Hampshire constitute a major reason for the state's attractiveness to manufacturers.

In second place, after New Hampshire, was Missouri, which was followed by North Carolina, Delaware and Florida.

Donating Excess Inventory

If your company has excess inventory, now is a good time to consider donating the merchandise as a tax-deductible gift.

The items must be what you sell or manufacture, and they must be unused. Your tax preparer can advise you on whether the deduction would be to your firm's advantage.

If you do decide to make a donation, one way to give is through the National Association for the Exchange of Industrial Resources. NAEIR has been helping companies redistribute excess inventory to deserving schools and charities across the United States since 1977.

NAEIR receives about $42 million to $45 million worth of inventory a year and serves about 8,000 schools and charities, says Jack Zavada, the group's communications director. It currently has about 1,200 active donors.

A firm donating goods is required to pay for shipping to NAEIR's warehouse, but the charges are tax-deductible, says Zavada. NAEIR provides documentation of your donation for taxes within 10 working days of receipt of the merchandise.

If you have goods that you wish to donate, you can write Cruz Ramos, Director of Donor Relations, NAEIR, 560 McClure Street, P.O. Box 8076, Galesburg, Ill. 61402.

Deadline Looms On Proposal For Worker Education

A congressional decision on a proposal that business views as important for improving the quality of the work force will go right down to the wire in this Congress.

The legislation would restore the tax exemption for employer-financed educational assistance to workers. That exemption expired last December 31, and any such assistance is now taxable income to the worker.

As part of a larger measure making technical corrections in the Tax Reform

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Act of 1986, the House has approved a three-year extension of the educational tax incentive, retroactive to last January 1. The Senate must still act on the technical-corrections measure, and it will then go to a conference for resolution of conflicts in the versions passed by each house. That schedule imposes a tight deadline on remaining legislation in view of Congress' plan to adjourn by the middle of October.

The fate of the education tax incentive is uncertain. Business leaders have said it is ironic that the incentive was allowed to lapse at the same time that a shortage of workers with basic skills is developing. (See the Cover Story, Page 26.)

Business organizations view employer-financed education programs as vital to overcoming that shortage, and they strongly support extension of the deduction for employee efforts to acquire additional skills.

In urging Congress to approve the extension, the U.S. Chamber of Commerce pointed out that 7 million employees had received educational assistance from employers since the tax deduction was first allowed in 1978. "To stay abreast of changing technology," the Chamber said, "businesses must upgrade the skills of their work forces, and employee educational assistance is a cost-effective means of doing so."

Privately Funded Loan Guarantees

The business community in Des Moines, rallying to meet the needs of cash-starved small firms, has created the only private-sector loan-guarantee program in the country.

A small business that can't get start-up or interim financing from local banks or the Small Business Administration can apply to the Golden Circle Loan Guarantee Fund. The nonprofit fund has raised $1.5 million from eight companies in the Des Moines area. The money is used to guarantee commercial loans to small firms. In the event of a default, the fund pays off the loan. Sixteen local banks participate in the program. Four Iowa companies have received loan guarantees from the fund, helping to create or save more than 50 jobs.

Tim Jensen, small-business manager for the Greater Des Moines Chamber of Commerce Federation, is eager to export the idea to other states. He can be reached at 309 Court Avenue, Suite 300, Des Moines, Iowa 50309; (515) 286-4950. NB



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Bush, Dukakis And Business

The candidates differ on insurance, benefits and other policy matters, so business people must study carefully before voting November 8.

By Albert G. Holzinger

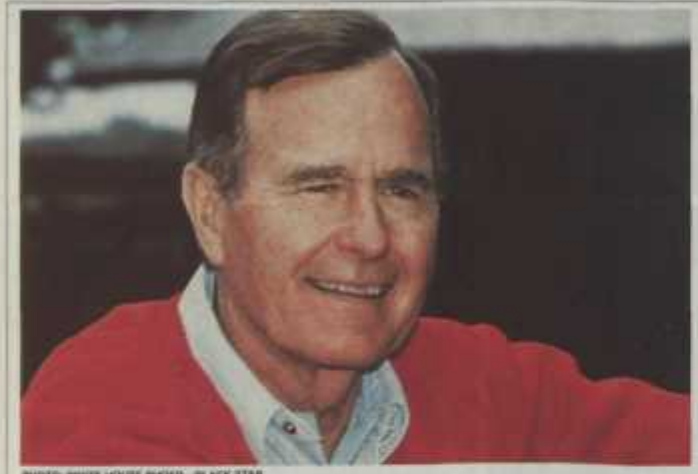


PHOTO: WHITE HOUSE PHOTO—BLACK STAR



PHOTO: DAVID CONKLIN—UNIPHOTO

While presidential candidates George Bush and Michael Dukakis agree small business is vital to the economy, their concepts of tender, loving care for entrepreneurship differ greatly.

Although Vice President George Bush and Gov. Michael Dukakis agree that the health of small business is vital to the overall economy, they differ sharply on what government should and should not do to preserve that health.

Because the candidates' concepts of tender, loving care for entrepreneurship differ substantially, business people will have to study carefully and think hard before casting their ballots November 8.

Nation's Business has obtained the views of Bush and Dukakis on benchmark small-business issues, as defined by delegates to the most recent White House Conference on Small Business.

The conference, held in August, 1986, brought to Washington almost 2,000 delegates from a cross section of American small firms, to identify 60 policy priorities.

A few conference recommendations, such as maintaining the Small Business Administration as an independent agency, have been adopted by the President and Congress, but most, including many top policy options, await consideration by the next administration, House and Senate.

Here is a comparison of the presidential candidates' positions on the principal policy recommendations of the White House Conference on Small Business:

Insurance

Two sultry summers ago, most business owners and professionals were sweating profusely about the affordability and availability of commercial insurance. The White House conference made its highest priority gaining wholesale reform of the civil-justice system, which had been churning out astronomical damage awards almost routinely.

The so-called liability crisis has abated somewhat, though more as the result of market forces than of action in Washington, but insurability remains a leading concern of many of America's entrepreneurs.

Bush and Dukakis would take much different approaches to further stemming the liability crisis.

"Fairness, balance and predictability must be restored to this nation's liability system . . . while insuring just compensation to those injured through the fault of others," says the GOP candidate. "I believe public officials must do all they can to ensure appropriate [tort] reforms are enacted in all our states and in the federal [product-liability] system." Bush endorses:

- Restoring fault as the standard for damage recovery.
- Eliminating the deep-pocket rule, under which minimally involved and financially sound defendants can be made to pay 100 percent of plaintiffs' claims.
- Expanding the use of alternative dispute-resolution mechanisms, including binding arbitration and mediation.

In contrast, Dukakis believes "consumers have been generally well served" by the current, state-regulated insurance system. Therefore, Dukakis would oppose enactment of a federal product-liability statute or other tort reforms, though he would "encourage" drafting a model code that states could choose to adopt as their own.

The Democratic candidate believes if there is a liability problem, it stems from practices of the insurance industry, and he has proposed review of the industry's antitrust exemption under the McCarran-Ferguson Act.

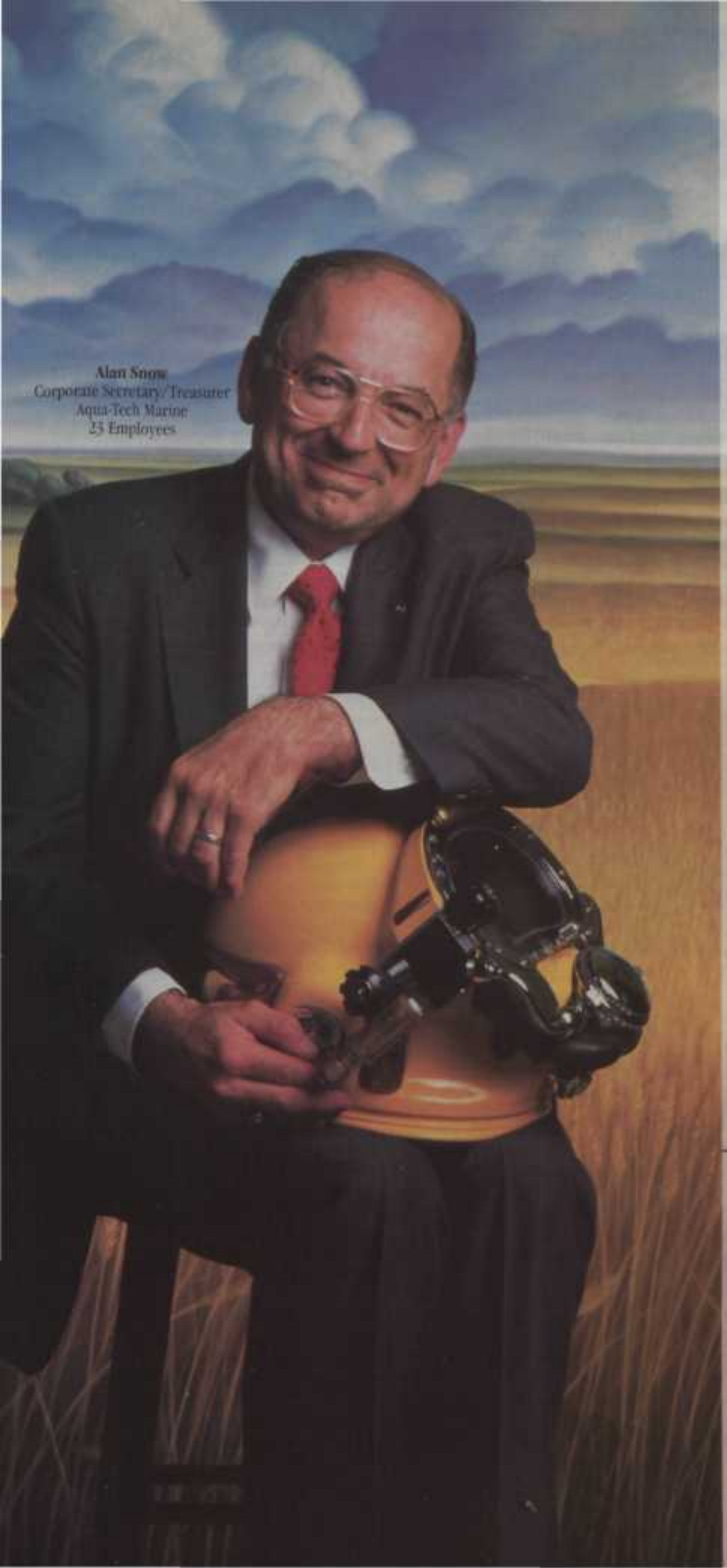
Mandated Benefits

With the federal budget deficit at its peak level of more than $200 billion two years ago, some in Congress decided the time was right to begin requiring businesses to provide benefits too rich for the blood of the federal treasury.

Small-business delegates to the White House conference took the threat of parental and medical leaves, health insurance and other mandated benefits seriously enough to make opposition to such proposals their second-highest priority. Bush and Dukakis differ completely about this issue.

Says Dukakis: "This spring, I signed into law a plan to provide universal health care for the citizens of Massachusetts. As President, I would support Senator [Edward M.] Kennedy's health-care bill, which would require employers to provide basic health insurance for their employees and [their] dependents."

Dukakis does add, however, that he



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would seek to change some provisions of the Kennedy bill to mitigate its impact on the smallest firms.

Bush would "shun ... mandatory health-care proposals" because "the less government is involved in the day-to-day administration of health care, the more efficiently it will run."

Similarly, Bush opposes mandated parental and medical leaves but encourages "private efforts to establish flexible standards allowing workers with newborn children [or] seriously ill family members ... to follow through on important family-related work."

Dukakis backs mandatory leaves "of lengths sufficient to fulfill their underlying purposes." Employees on parental and medical leaves "should be protected against loss of ... seniority and benefits," he says.

Dukakis supported the recently enacted mandatory plant-closing notification bill. Bush opposed the legislation, and his vice presidential running mate, Dan Quayle of Indiana, led efforts to scuttle the measure in the Senate.

On a related issue, in carrying out his pledge to "create good jobs at good wages," Dukakis would increase the minimum wage annually to offset inflation. Bush would accept "some adjustment" in the wage floor, presently $3.35 an hour. But annual increases would handicap small businesses and result in loss of jobs, Bush contends.

Deficit Spending

Eliminating deficits and amending the Constitution to require balanced budgets in the future were leading concerns of White House conference delegates, just as they are of small-business people today.

During the Reagan administration, federal spending increased from about $600 billion a year to $1 trillion. While revenues rose, too, from about $500 billion to $850 billion, the national debt increased from about $900 billion to $2.3 trillion. Democrats blame this burgeoning debt on the Reagan-Bush defense buildup and on what they call tax breaks for the wealthy. The President points out that only Congress can spend money and change tax laws.

Both Bush and Dukakis vow to get deficits down and keep them down, so business' challenge is determining which candidate's budget plan is more likely to do so without bringing on a recession.

On spending, Bush proposes a "flexible freeze," the specifics of which are somewhat vague.

In general under this plan, appropria-

Taxes And Spending

Vice President George Bush says that if he's elected president, he will continue economic policies that have achieved "a record high percentage of Americans with jobs, a record high rate of new businesses, record high real personal income."

As the Democratic candidate for President, Gov. Michael Dukakis of Massachussets pledges "good jobs at good wages for every citizen" by rekindling "the spirit of invention and daring" and exchanging "voodoo economics for can-do economics."

The economic policies Bush credits for fostering economic growth have been highly visible. Dukakis' economic policies have gone largely unreported in the press outside his home state of Massachusetts. But the governor's responses to his state's recent fiscal problems provide business people with some insight into how the governor might approach national fiscal issues.

Dukakis' budget woes date back to his first term as governor. Dukakis made an "ironclad" pledge not to raise taxes, but when he inherited a $500 million deficit, he imposed an individual income tax surcharge of 7.5 percent. Voters were so outraged at what they perceived as a breach of faith that they drummed the governor out of office in 1978 by denying him his party's renomi-



PHOTO: S. FERRY—GAMMA LIAISON

nation. Dukakis abolished the "temporary" surcharge during his second stay on Beacon Hill, in 1985, after 150,000 people petitioned for a repeal referendum.

Just hours before the Democratic National Convention began in July, Dukakis averted embarrassment by eliminating a $400 million state deficit for the fiscal year ending June 30 with a line-item veto here and there and a lot of creative accounting and borrowing.

Also in July, Dukakis proposed an $11.6 billion balanced budget for the current fiscal year, as required by his state's Constitution. But that budget already is estimated to be at least $200 million in deficit.

Some representatives of business offer qualified support for the Dukakis spending and tax scorecard. Says Richard Manley, president of the Massachusetts Taxpayers Foundation, a nonpartisan business research and lobbying organization: "Dukakis spends too much money. But by and large he's done a pretty good job ... for the small-business guys, and he is pretty popular with them."

But others disdain the Dukakis budget record.

"When he came [back as governor in 1983] the economy had begun booming already, and money was pouring in. He spent every cent of it and borrowed even more. Now that the economy is returning to normal levels, we are facing the same crisis situation Dukakis faced in 1975—or worse," charges Barbara Anderson, executive director of a taxpayer watchdog group, Citizens for Limited Taxation.

Similar criticism is being aired in the campaign. But Dukakis' backers respond that Republican claims to sound fiscal policies ignore the $1.4 trillion increase in the national debt during the Reagan years and continuing budget deficits that will drive the debt higher.

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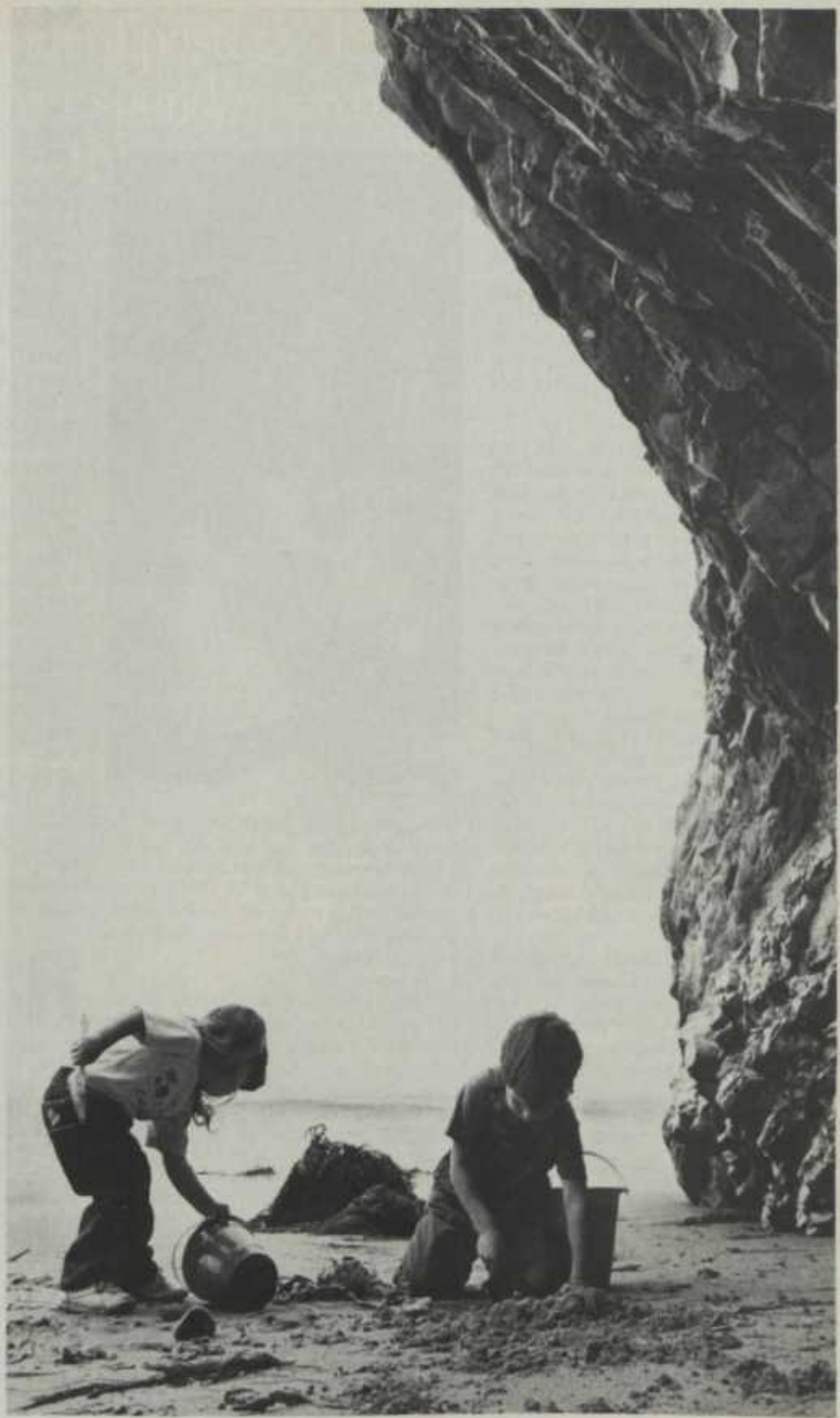
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tions would be allowed to increase only by the rate of inflation. Agency heads could request additional funding for one or more of their programs if they proposed offsetting reductions in others.

Interest payments on the national debt would be exempt from the freeze, as would Social Security. "Our seniors must feel secure in the knowledge that their [retirement payments] will be safe and sound," Bush says.

The GOP candidate also leaves himself a defense-spending loophole. "A President's first priority is to maintain the defense of the country," he says. "The question we must ask ourselves is not how much money we must spend, but what is required to be secure."

Under economic assumptions made by Bush's economic advisers, a flexible freeze could yield a balanced budget by about 1992—without a tax increase. Bush would seek to maintain balance through line-item veto power and a Constitutional amendment.

Like his opponent, Dukakis would seek line-item veto power, which he used frequently as governor of Massachusetts, but he would shun a "phony" balanced-budget amendment. In general, the Democratic candidate has been much less specific than Bush about his spending-reduction plans, though he pledges to "make the tough choices on spending."

To support this claim, Dukakis asserts: "As governor, I have just completed my 10th consecutive balanced budget. I am itching for the chance to bring that kind of fiscal discipline to the federal level. . . . There remain many federal projects of dubious value that I would seek to cut."

When pressed for specifics, Dukakis cites:

- "Substantial savings in the $26 billion per year that the federal government spends on agriculture."
- Sweeping reform of the welfare system "along the lines of Massachusetts' highly successful program."
- "Substantial savings in health care by developing cost-effective, prepaid health plans."
- Elimination of some major weapons-systems procurement programs, including the mobile MX missile and the midgetman missile.
- An end to federal support for research on the atomic fusion method of nuclear-power generation.

But it is unlikely these proposed cuts would amount to more than a small fraction of the current $1 trillion federal budget. And, in his responses to *Nation's Business*, Dukakis did not acknowledge that the platform adopted by his political party in Atlanta last summer called for about 15 new spending programs and increases in at least as many others.



PHOTO: DENNIS BRACK—BLACK STAR

On taxes, Bush has said repeatedly and emphatically that he would not allow taxes to be raised, "period." In fact, the Republican candidate supports selected tax reductions through amendments to the 1986 tax-reform act, which he views as "imperfect."

Says Bush: "Some tax incentives for business need to be restored." Among them is reduction of the long-term capital gains rate, from 28 percent to 15 percent, to "achieve the goal of encouraging risk taking."

Bush also would seek to restore some energy-industry tax breaks to spur new domestic exploration and production. And he would expand tax assistance to parents with children in day care. Democrats dismiss these tax-incentive proposals as pandering to special interests.

Dukakis charges "no serious candidate can absolutely rule out the possibility of new taxes," but says he'd support a tax hike "only as a last resort." Adds the Democratic candidate: "If additional taxes become unavoidable, I would make sure they are based on the ability to pay."

This caveat would rule out a consumption, or value-added, tax or an oil-import fee, which are much more burdensome to low- and middle-income earners than to those in the upper-income brackets.

Dukakis rejects tinkering with the new tax law as disruptive to business. "While there are provisions I might ultimately want to change, I believe we need a period of stability," he says. "It is burdensome for everyone when we change the tax code every year."

Central to the Dukakis deficit-reduction program would be collecting taxes already owed the government. "One in five dollars owed each year to the IRS goes unpaid and uncollected," he says. "That's not legal. It's bad fiscal policy."

Dukakis believes hiring additional revenue agents for a wide-scale crackdown on tax cheating would net as much as $15 billion a year, but this estimate has been the subject of considerable debate in Washington.

In contrast, Bush supports enactment of a Taxpayers' Bill of Rights, which would curb alleged strong-arm tactics already employed by the IRS in the quest for tax cheaters.

Says Bush: "For too long the rules of the [revenue-collection] game have been cloaked in deliberate ambiguity," which leads to persecution of innocent taxpayers.

Reading the candidates' reactions to these and other policy recommendations makes it clear that both men, while committed in principle to the support of small business, have very different ideas about the relative roles of business, labor, government and American society as a whole. Here's a rule of thumb for predicting how, as President, they would handle matters of importance to your business.

Dukakis' policies as governor of Massachusetts are probably as accurate a barometer as any of his attitudes toward business. In sum, they are geared toward joining business, unions and the government in efforts to stimulate the economy and, thus, increase revenues. New revenues and sometimes more are then spent in their entirety, mostly on new or expanded social services.

For insight into how Bush would deal with issues, imagine how Ronald Reagan would deal with them. While the President and Bush don't always think alike, their spending, tax and regulatory thoughts seem to be largely on the same wavelength. NB

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Close, Crucial Races For Congress

While the eyes of most Americans are trained on presidential candidates Michael Dukakis and George Bush, business lobbyists are focusing intently on about four dozen senators, representatives and challengers running in what are expected to be close races.

As much as the outcome of the presidential contest, the results of those key congressional elections will determine the climate in Washington over the next two years for small business' public-policy agenda.

Here's a brief look at business' prospects of gaining a more sympathetic House of Representatives and Senate.

House Of Representatives

Business has not won many battles in the House lately, and the consensus among Washington lobbyists is that things aren't likely to improve much during 1989-90.

For the last several House elections, well over 90 percent of incumbents seeking to retain their seats succeeded. Therefore, non-incumbent candidates backed by interest groups, including business, usually win seats only when incumbents die, retire or run for other elected offices, and relatively few incumbents are leaving office voluntarily this fall.

The Democratic and Republican congressional campaign committees are predicting a gain of about 20 seats for their respective parties. Business political-action committees (PACs) are concentrating their resources on about 30 to 35 races projected as close.

So, barring a highly improbable Dukakis or Bush landslide, which could bury congressional candidates now believed safe, the parties' ratio in the new House should closely resemble the present one—255 Democrats to 177 Republicans. (Three seats are vacant.)

Currently, 215 of 435 representatives support the business position on legislation half the time or more, and 161 of those 215 back business 70 percent of the time or more, according to Jeff Marcoe, a U.S. Chamber of Commerce legislative analyst.

One player on Capitol Hill imploring business people not to write off next month's House elections is Dan Costello, chief lobbyist of that body for the U.S. Chamber. "The current House ... came within six votes of thumbing its nose at the unions on a Davis-Bacon amendment to a military construction bill."



PHOTO: SHERROW—UNIPHOTO

"In 1980, ... close elections went [business'] way; in 1986 they all went the other way. This year, who really knows?"

—SEN. RUDY BOSCHWITZ (R-MINN.)

Contends Costello: "If only 10 old-time liberals backed by organized labor were replaced in November by younger, more practical, more fiscally conservative challengers, the business outlook [in the House next Congress] would be pretty darn good."

Senate

Come next January, business people will find fewer friendly faces in the Senate regardless of who wins the presidential election, goes the conventional wisdom in Washington now. But more and more political observers have begun saying, "Don't bet on it."

Business lobbyists have chalked up a lot of wins in the Senate during the Reagan era, from spending- and tax-reduction legislation enacted in the early 1980s to recent defensive actions against mandated benefits (with the notable exception of the plant-closing notification requirements). Fifty-three current senators vote with business most the time, and 32 of them vote with it 70 percent or more of the time, according to the Chamber's Marcoe.

In November, business PACs hope to gain an even more favorable Senate by prevailing in 10 very close races. Some of those fights are "uphill," says Sen. Rudy Boschwitz (R-Minn.), chairman of the National Republican Senatorial Committee. But, he adds, "There's a chance in each of them. In 1980, all the close elections went [business'] way; in 1986 they all went the other way. This year, who really knows?"

Of those 10 seats up for grabs, four are held by pro-business senators:

- Pete Wilson (R-Calif.), a freshman, challenged by Lt. Gov. Leo McCarty.
- David Durenberger (R-Minn.), in danger largely because his challenger is a Humphrey: Hubert Humphrey III, state attorney general.
- David Karnes (R-Neb.), another freshman, challenged by former Gov. Robert Kerrey. This is expected to be one of the closest races of all, with Kerrey now leading in most polls.
- Chic Hecht (R-Nev.), yet another freshman, opposed by popular Gov. Richard Bryan. No election is likely to be as close as this one. Bryan garnered 64 percent of the vote in his last statewide election and is leading Hecht in most polls.

Two incumbents with poor business voting records are believed vulnerable:

- Frank Lautenberg (D-N.J.), facing a man many refer to as the "ideal" candidate: athlete, soldier, businessman Pete Dawkins.
- Howard Metzenbaum (D-Ohio), challenged by Cleveland Mayor George Voinovich. Metzenbaum is among the most openly antibusiness senators, and Voinovich trails him only narrowly in the polls.

Also, four open seats appear up for grabs. They were formerly held by Lawton Chiles (D-Fla.), John Stennis (D-Miss.), Daniel Evans (R-Wash.) and William Proxmire (D-Wis.).

Says Neil Newhouse, vice president of the Wirthlin Group, a national polling and political-research firm: "The key thing business people should keep in mind is this year's elections will be decided late. [Our polls] indicate about 20 percent of voters won't make up their minds until two weeks or less from the elections. Don't give up on any of [business'] candidates."



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Benefits-Rule Migraine

The profits and net worth of some companies could be wrecked by a new accounting rule on future retiree health benefits.

By Donald C. Bacon

Imagine that you are the chief financial officer of a thriving business and you have just been told that, while you weren't looking, a huge debt had crept in and was about to consume your company.

The obligation, an amount beyond your wildest nightmare, represents the cost of financing health-care benefits for retired employees. The Financial Accounting Standards Board (FASB) will require employers to disclose accrued costs of those benefits and list them on financial statements as an accrued liability. The private-sector board has authority to regulate accounting procedures for businesses.

Merely recording the liability threatens not only to wreck profits and net worth for years to come but also to impair your company's credit, stock value, employee relations and good name.

Burdened with that grim information, what do you do?

If you are like some executives hit with similar news in recent months, you might, in effect, blame the messenger. Employee-benefits consultants and actuaries, frequently the bearers of bad news, say that, in the past year, they have been booted out of more middle- and upper-management offices than they can count.

"Those chief financial officers and human-resources administrators didn't want to be the character to go upstairs and tell the chief executive officer that they had an amazing problem that represented as much as 50 percent of net worth," says Fred Van Remortel, a managing director of Brown Bridgman & Company, an employee-benefits consulting firm based in Burlington, Vt. "Their way to deal with that was to say, 'Get the hell out of here; don't you talk about it—to us or anybody else. Just get out.' "

Adds Steven J. Ferruggia, director of group actuarial practices at Buck Consultants, Inc., of New York: "We're seeing a little less resistance now. Gradually people are awakening to the magnitude of the problem."

The result is that employers are becoming convinced that they can no longer treat retiree health-care benefits as a kind of gift that continues only as long as the company is willing to pay for it. Instead, as court rulings repeatedly have affirmed, such fringes generally must be seen as open-ended contractual commitments, a form of deferred compensation, that the employer must provide regardless of the cost or inconvenience.



PHOTO: RICHARD DEBK

Among those warning employers to prepare for a major new accounting standard are benefits consultants, such as Chicago-based Anna Rappaport and Jonathan Dopkeen.

The forthcoming accounting rule has many company officials in near panic because they see it as the first step toward mandatory prefunding of the liability during employees' working years, much as employers already are required to prefund employee pensions.

Other authorities believe that, mandatory or not, prefunding is inevitable once the liability is recorded on a company's books and begins to gnaw at profits. As Van Remortel puts it: "Without prefunding, you cannot mitigate the impact of that balance-sheet recognition." Thus, employers soon could be shelling out each year four to eight times more for health-care benefits than they currently are paying.

"It is, in our view, the most significant single financial problem to face corporate America in a long time," says Van Remortel. "It hits virtually all corporations—big and small—relatively the same, except for those that do not have retiree health care."

That makes the issue a concern not only for the 86 percent or more of all medium-to-large-size companies that include health care in their retirement packages, but also for up to 62 percent of smaller businesses—those with fewer than 1,000 employees—that offer such benefits. Even the smallest firms could be more heavily affected than previously believed: A recent study found that among companies with 50 employees or fewer, at least 42 percent provide health care for retired workers.

Comments James Klein, deputy executive director of the Washington-based Association of Private Pension and Welfare Plans, Inc.: "For many small companies, this won't be an issue if they don't currently provide retiree medical benefits, although it will be the kind of thing that certainly will discourage them from providing those benefits in the future.... That will result in greater demand on the public sector to do it, and that means higher Medicare and Social Security taxes, and, of course, small businesses already are suffering under the burden of high payroll taxes."

Generally, the bigger companies, with millions or even billions of dollars in unfunded health-care liabilities, have been first to begin dealing with the



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Benefits Rule Migraine

Employee-benefits specialist Fred Van Remortel says retiree health-care liabilities are creating the "most significant" financial problem in years for American business.



PHOTO: T. MICHAEL KEZA

problem they see as a looming financial crisis. Many newer, smaller companies with retiree plans but few retirees remain only vaguely aware of the liability issue, according to employee-benefits experts. Some of those employers, they note, may have more at stake than many bigger corporations.

"We're hearing a lot from the big companies right now, but the ones that are going to be most adversely affected are the smaller ones that can't afford the swing in costs," says Jonathan C. Dopkeen, benefits specialist with the Mercer Meidinger Hansen consulting firm in Chicago. "We have seen examples where, if prefunding for retiree health-care benefits is required, annual costs go from doubling for the biggest companies up to as much as 20 to 30 times current costs for some of the high-tech companies that have few retirees now but see lots in the future."

Authorities generally estimate the private sector's retiree liability at more than $500 billion; some peg it in trillions of dollars. Whatever the amount, it appears to be more than American business can readily absorb.

At Tektronix, Inc., an electronics manufacturer in Beaverton, Ore., Corporate Benefits Manager Jane Barber says she has been warning people about the company's retiree medical liability. Four years ago, Tektronix brought in experts to estimate the obligation, which, Barber says, turned out to be "significant . . . but probably not as mind-boggling as for some other companies." Ultimately, the company redesigned its medical plan covering both active and retired employees "to try to control the cost," but, like most businesses, it has taken no action to begin prefunding the future health-care commitment.

Gates Corporation, a Denver-based rubber-products manufacturer, has a retiree medical liability between $125 million and $200 million, which is not unusual for a company its size. What is unusual about Gates is that its officials several years ago became alarmed at the size of the obligation and decided to do something about it. "We looked at the size of that liability and said, 'Oh, my God, we've got to find an investment someplace to help take care of that,'" recalls Jay Schmelter, director of corporate insurance and employee relations. Today, Gates has investments in corporate-owned life insurance whose earnings are intended to help reduce the exposure.

Clouding the whole liability issue is uncertainty over how a company can reliably determine the amount it owes. Medical costs in recent years have soared well above the inflation rate and are affected by so many variables that specialists despair of trying to guess costs a year from now, much less 20 to 30 years ahead.

Even so, the FASB says it will require all businesses that use standard accounting practices to disclose their current and accrued future retiree health-benefit costs in footnotes to their balance sheets, beginning with fiscal years after Dec. 15, 1991. The most controversial requirement—recognition of a minimum accrued liability on company financial statements—is slated to take effect Dec. 15, 1993. Small businesses would have two additional years to initiate the changes.

The FASB "exposure statement" spelling out the new standard is due in late October. It will be followed by six months of comment, with public hearings next spring. The standard in final form is expected by the end of 1989.

How did this immense obligation sneak up on America's businesses?

Until now, the overwhelming majority of employers have financed health-care costs, for active and retired employees, on a pay-as-you-go basis.

Few employers foresaw that health-care costs would soar since 1965 at a rate averaging 2 percentage points a year above other consumer-price increases. Few envisioned Congress reducing Medicare coverage, shifting more of the responsibility for the medical welfare of people over 65 to the private sector. Nor did anyone fully anticipate the foreign competitive and other pressures that forced some of the nation's older, labor-intensive industries to "down-size" their operations in the 1980s. Offered special inducements, including full health benefits, many workers in those industries took early retirement.

What brought FASB squarely into the picture was the implied future impact on company finances of a series of federal court decisions.

The courts, beginning in 1983, consistently have held that retirees have a contractual right to health benefits promised at the time of retirement. Unless employers had made it explicitly clear in the employment contract that health benefits may be terminated, they were legally bound to provide lifelong benefits to current retirees, the courts said.

Left unclear by the courts was to what degree, if any, health plans could be modified after retirement. Benefits consultants report that, given the courts' vagueness, some of their clients are considering changes to reduce utilization or shift more of the expense to retirees. But warns Anna M. Rappaport, managing director of the Mercer Meidinger Hansen firm: "It is quite possible that any employer that makes such modifications for existing retirees may be sued . . . legal uncertainty has virtually paralyzed some employers seeking to manage their retiree benefit plans."

Employers still may modify health

plans offered future retirees, a course that many are taking, often at the same time they impose controls on health coverage for active employees. Among changes consultants say they most often recommend for both groups:

- Raising copayments and deductibles to reduce employer costs and to discourage unnecessary use of medical services.
- Offering managed-care alternatives, such as health-maintenance and preferred-provider organizations, which can be less costly for users and employers than traditional health plans.
- Initiating cost-containment features, such as a required second surgical opinion and incentives for greater use of out-patient surgery.
- Setting up case-management programs, including hospital-preadmission certification and incentives for self-auditing of bills.

Some companies are weighing a fixed cash benefit to replace their commitment to provide specified medical services. Under a defined-contribution approach, an employee receives at retirement a dollar credit toward the cost of future medical premiums. If costs go up, the retiree makes up the difference.

Also on the table in some board rooms is the option of sharply limiting or even terminating health benefits for future retirees. Most health-care consultants, however, report only faint employer support for such Draconian measures. For humanitarian as well as solid business reasons, company officials are said to be focusing on ways to preserve, not gut, their benefit programs.

Up to now, employers have found little reason to put aside money for future retiree medical benefits. As long as costs were manageable and retirement rosters relatively sparse, it made sense for firms to pay the premiums as they came in and let the future take care of itself. Moreover, there have been no real tax incentives, at least in recent years, for setting up trusts or other devices to prefund the liability.

In 1984, Congress sharply limited deductible contributions by employers into employee beneficiary trusts, which had been the principal means for prefunding retiree health benefits. In 1986, Congress restricted the last tax-favored prefunding mechanism—corporate-owned life insurance.

Most employers now are waiting to see how the issue plays out next year on Capitol Hill, where Congress will be under pressure from business to provide some form of tax preference for prefunding retiree medical liabilities.

Supporters of such incentives are focusing especially on a bill by Rep. Rod Chandler (R-Wash.) that would allow companies voluntarily to put tax-deductible contributions into trust funds whose assets and earnings would accumulate tax-free until paid out in the form of health benefits. The measure is supported by the U.S. Chamber of Commerce and other business groups, and it is opposed by organized labor, which objects to its voluntary approach.

Chandler says he will soon introduce a revised retiree benefits bill. It will include a tax-favored prefunding provision similar to his original bill as well as a provision allowing employers to transfer surplus pension-fund assets to help fund retiree health benefits.

Although many observers believe Congress eventually will intervene in the funding issue, some warn that action, if it comes, may go beyond the limited tax assistance employers seek.

There is talk in Congress of drafting an "ERISA II" to establish strict regulatory standards for retiree medical benefits, including mandatory prefunding, much as the original ERISA law now regulates employee-pension plans. And in the wings is a bill by Sen. Edward M. Kennedy (D-Mass.) to compel virtually all employers to provide medical coverage to employees as a condition of doing business.

Among those finding little reason for optimism in all this is Frederick J. Krebs, manager of the Chamber's Business-Government Policy Department. Krebs envisions a long adjustment period for both employers and employees as they grapple with rising medical costs combined with the difficulty of prefunding retiree benefits.

"What you're going to see," Krebs says, "is a cutting back of benefits . . . And you're going to see fewer firms promising to cover retirees' health care. Instead, they're going to be saying to retirees: 'When you retire, we'll give you so much money—a defined amount—to use for health care, and you'll have to take it from there.' " NB



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COVER STORY

Can Your Workers Read?

By Karen Berney

Three years ago, the Northern Tube Division of AP Parts Manufacturing Company, a leading producer of air-intake and exhaust parts for trucks, decided to introduce a new technique to improve quality on the production line. It meant that some 300 employees at the Pinconning, Mich., plant would be trained in the new system, which statistically monitors the manufacturing process.

Employees would need 20 hours of classroom instruction, officials figured. But with each lesson, it became increasingly clear that something was amiss. Many employees were not getting the hang of the new technique, formally known as statistical process control, or SPC. The reason: The workers' reading and math skills were too weak for them to keep up with the training—even though the group later tested above the national norms in both areas.

"They were not able to do the calculations, read blueprints or graph numbers," says Michael Brooks, vice president and general manager of Northern Tube. The logic of SPC "was not readily apparent to them," he says.

Northern Tube discovered what is increasingly recognized as one of the biggest impediments to the nation's efforts to regain competitiveness—the mismatch between the kinds of jobs the economy is creating and the qualifications of those available to fill them.

Put simply, American workers are not keeping pace with the demands of today's jobs. And, according to a new study, produced jointly by the Departments of Labor, Commerce and Education, the gap is widening. More and more workers are entering the job market with serious educational deficiencies, and many never catch up. Overall, the skills gap costs the business community an estimated $25 billion to $30



PHOTO: WILLIAM DEKAY

Skills training for workers such as Barton Caverly at Northern Tube, a truck-parts firm, "has rewarded us two to three times over," says Vice President Michael Brooks, right.

Millions of U.S. workers are barely literate at a time when they increasingly must be able to communicate and absorb new ideas. The mismatch of workplace needs and worker skills squeezes small business.

30%

Of Your Employees Can't Read This Headline ...And It's Costing Your Business Plenty



PHOTO: JEFFREY LAWRENCE

billion annually in low productivity, workplace accidents, absenteeism, poor product quality and lost managerial and supervisory time.

As Motorola, Inc., Vice President Carlton Braun told the congressional Joint Economic Committee last April: "We have found to our disappointment that many workers are not prepared to operate the factory of the present, much less of the future."

Only 20 percent of job applicants at Motorola can pass a simple seventh-grade test of English comprehension or a fifth-grade mathematics test. New York Telephone Company reported that in a six-month period of 1987, an astounding 84 percent of its job applicants failed the entry-level examination.

Behind those results are disturbing statistics such as these: Some 27 million adults are functionally illiterate, meaning they are unable to perform every-

"The three R's don't make it any more" as minimum skills in the job market, says economist Tony Carnevale of Alexandria, Va.

day tasks such as writing a bank check, filling out a job application or identifying the deduction for Social Security on a wage statement. The ranks of the nation's functional illiterates grow each year by an estimated 2.3 million, including newcomers from abroad. In addition, some 40 million more adults are considered barely competent in those skills, and their number also is growing.

When estimates of both types of illiteracy are combined, it suggests that about 30 percent of adults—about 1 out of 3 potential employees—can't read, write or reason well enough to compete in today's economy.

To maintain economic competitiveness, the economy must sustain an annual growth rate of 3 percent, the Hudson Institute concluded in a comprehensive report on future U.S. labor needs. Achieving that goal will require 25 million workers to improve their skills, climbing, on average, a full point—from 2.6 to 3.6—on the Department of Labor's 6-point scale that measures jobs by degree of difficulty. For some workers, it means progressing from the level of understanding comic books to grasping complex maintenance instructions.

What is more, employers will continue to need more workers who not only are proficient in reading, writing and arithmetic, but also can adjust to change, absorb new ideas and share ideas with others. "The three R's don't make it any more," says Tony Carnevale, chief economist at the American

Can Your Workers Read?



PHOTOS: RICHARD HOWARD

Volunteer Edward Flynn, left, and coordinator Ann Higgins, center, tutor Regina Miranda and Frances Crown through Project Literacy at Wesco Electrical Company. Miranda is shown above taking a measurement for a machine that she operates, and Crown is assembling capacitors.

Society for Training and Development, in Alexandria, Va. Just as essential, he says, are the abilities to communicate clearly, to analyze and solve problems, and to work cooperatively with others.

These "soft" skills, along with the basics, make up what experts call "the new workplace literacy." Underlying the new definition are fundamental economic changes: Job growth is highest in skilled occupations—technical, professional, sales, service and managerial—and lowest in fields that have traditionally required modest educational attainment. Automation is redefining all jobs, including those associated with physical labor.

In the insurance industry, for example, certain claims-handling tasks that formerly required five people, each doing simple routines that a high-school dropout could master, are now carried out by one person and a computer. That person must be able to communicate well, analyze complex problems and understand relationships among arrays of information.

Not long ago, the primary skill required of an operator at Northern Tube was good hand-eye coordination. With the introduction of SPC, that worker must also read, analyze data and make judgments. Today "we are asking our people to participate in quality-control decisions," Brooks says. "That is a very different approach, requiring them to develop their communication skills to a greater extent than ever before."

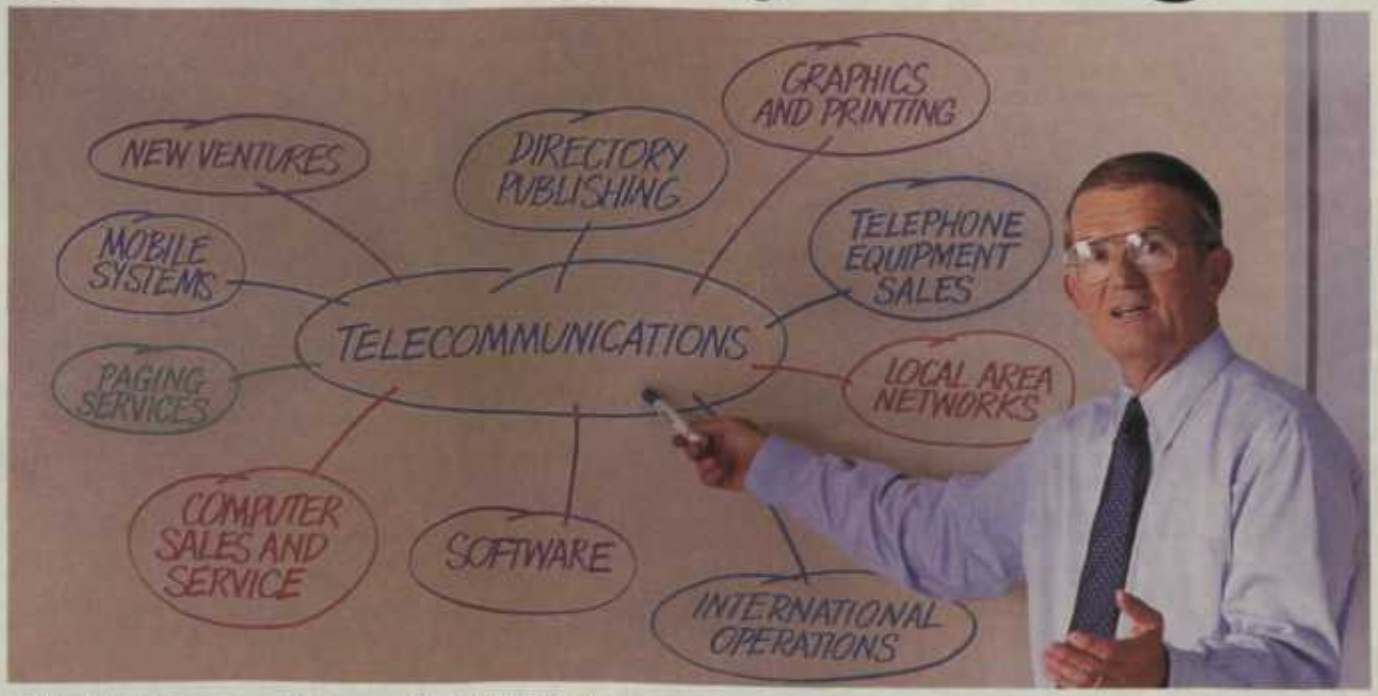
The upgrading of jobs is cutting across occupations as well as industries, says Carnevale. In its much-discussed report, *Workforce 2000*, the Hudson Institute forecast that, by the 1990s, more than half of all new jobs will require some education beyond high school and that 30 percent of those jobs will demand a college degree.

Some corporations not only are providing skills-enhancement programs for employees but also have begun attacking workplace illiteracy at its roots—the grade-school classroom.

Corporate leaders such as International Business Machines Corporation, General Motors Corporation, General Electric Company and John Hancock Mutual Life Insurance Company are laying out hundreds of millions of dollars annually to build educational facilities, support quality teaching and stimulate students' interest in learning.

BellSouth Corporation, headed by John Clendenin, who long has been active in literacy and training movements in business, fine-tunes its educational outlays. Concerned particularly about educational deficiencies in its nine-state service area, the Atlanta-based communications company two years ago provided $25 million in seed money to endow its own philanthropic foundation. Half of the foundation's grants, totaling more than $3 million annually, will be aimed at precollege education and will have two main purposes: preparing

BellSouth is growing by design.



BellSouth's telephone operating companies, Southern Bell and South Central Bell, continue to offer new products and services to an expanding customer base of over 14 million.

At the same time, BellSouth is committed to developing new businesses that are a natural outgrowth of BellSouth's telecommunications expertise.

On January 1, 1986, BellSouth Enterprises was formed. Its purpose: To direct all BellSouth subsidiaries in businesses other than regulated telephone services.

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The BellSouth Communications Systems Group markets products and services that keep BellSouth in the forefront of the telecommunications industry. Throughout the U.S. and Europe, the Group offers a range of products from office automation equipment to computer leasing and maintenance.

Focus On The Booming Cellular Market

The companies of the BellSouth Mobile Systems/International Group focus primarily on the rapidly growing mobile telephone market. Already in many major American cities, they are quickly penetrating markets in England, Western Europe and Australia.

In the years to come, BellSouth Enterprises will continue to play an important role in BellSouth's commitment to maintain high service standards, emphasize telecommunications, and pursue orderly corporate growth. With such a strategy, it's no wonder the future looks so exciting.

Clem Patton, BellSouth Enterprises Vice President — Planning and Development, outlines some areas in which BellSouth is developing new businesses that are a natural outgrowth of the company's telecommunications expertise.

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and retaining black educators, and motivating black students at an early age to make informed decisions. "Our thrust is to try over the long run to make fundamental improvement in the educational system," says Patricia L. Willis, executive director of the BellSouth Foundation.

Polls show the quality of education, particularly in kindergarten through 12th grade, to be a leading concern of America's business leaders. A recent U.S. Chamber of Commerce survey showed that 79 percent of local chambers have education committees and that 62 percent are targeting community-based initiatives with funds and other support.

Ironically, as the economy prospers and joblessness declines, the problem of illiteracy in the workplace appears to be getting worse. What is happening, explains Allen Sinai, chief economist at the Boston Company, a New York consulting firm, is that "as we get close to full employment, the least productive, most untrained workers are getting pulled in last." As a result, business productivity can begin to decline, as it did in the second quarter of 1988.

As with other companies, improved productivity underlies extensive worker training in the nearly 50 divisions and plants of Dresser Industries, Inc., Dallas-based maker of petroleum equipment. Company President J.J. Murphy has determined that "the only way you can increase productivity is to have smarter people working for you," says a spokesman, adding: "In many areas it's getting tougher than hell to hire people with the right amount of skills."

Many jobs are going begging in major cities where "Help Wanted" signs seem permanently affixed especially to the windows of fast-food and retail stores. As the labor market tightens, economists predict, no employer will be spared.

For small businesses, the squeeze will be especially tight, maintains Frank Swain, the Small Business Administration's chief counsel for advocacy. Offering relatively lower salaries and less extensive benefits than large companies, small firms will be scrambling to compete in a tight market where qualified labor is at a premium, he says.

Moreover, as employers of two thirds of America's minority workers—many of whom have lacked the schooling and skills to compete effectively in the employment market—small businesses will bear a disproportionate share of the workplace-literacy problem.

Yet, although small firms have the largest problem, they can least afford to make the investment to solve it. Only 20 percent of all small-business employees receive job-related training, and most of that training is financed by employees themselves, according to the SBA. And the small-business employees who seek training usually are high-school graduates, not those who need training the most—the 20 percent who lack a high-school diploma.

"We know this is an issue small businesses cannot tackle on their own," says Swain. Only the largest companies can underwrite in-house literacy pro-

Literary Resources

Companies interested in learning how to set up programs for training workers in basic skills will want to examine two survival manuals on the subject.

One is *The Bottom Line: Basic Skills in the Workplace.* It is available for $2.25 from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402; (202) 783-3238. It also can be purchased at GPO bookstores in some cities.

The other manual is *Job-Related Basic Skills: A Guide for Planners of Employee Programs.* It can be obtained for $5.00 from its publisher, the Business Council for Effective Literacy, 1221 Avenue of the Americas, New York, N.Y. 10020; (212) 512-2415 or 2412.

Following is a list of other groups that can supply advice and referrals:

National Alliance of Business
1015 15th Street, N.W., Suite 500
Washington, D.C. 20005
(202) 457-0040
An information clearinghouse with regional offices.

Literacy Volunteers of America, Inc.
5795 Widewaters Parkway
Syracuse, N.Y. 13214
(315) 445-8000

Laubach Literacy Action
1320 Jamesville Avenue
P.O. Box 131
Syracuse, N.Y. 13210
(315) 422-9121
The two groups above have trained volunteers who travel the country to provide technical assistance.

American Association of Adult and Continuing Education
1201 16th Street, N.W., Suite 230
Washington, D.C. 20036
(202) 463-6333
Represents more than 3,000 adult-education practitioners.

Association for Community-Based Education
1806 Vernon Street, N.W.
Washington, D.C. 20009
(202) 462-6333
A resource for names and locations of community agencies offering job-site literacy training.

Institute for the Study of Adult Literacy
Pennsylvania State University
293 Rackley Building
University Park, Pa. 16802
(814) 863-3777
Resource for information on computer-assisted literacy training.

Project Literacy U.S. (PLUS)
Box 2
4802 Fifth Avenue
Pittsburgh, Pa. 15213
(412) 622-1491
Supports local adult-literacy task forces.

U.S. Department of Education
Division of Adult Education
400 Maryland Avenue, S.W.
Washington, D.C. 20202
(202) 732-2251
Administers the largest federal program supplying funds for adult education.

Small Business Administration
Office of Advocacy
1414 L Street, N.W.
Washington, D.C. 20416
(202) 634-6115



'Twas the height of the Christmas season when not Santa, but a small plane, dropped in on a gift shop one evening. Injuring over 200 toy soldiers, teddy bears and such. And leaving behind a mess that made re-opening soon look bleak.

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grams or hire private trainers. Small firms will have to coordinate resources with local schools and other community organizations. Indeed, without a grant from Michigan's Department of Commerce, Northern Tube would have been hard-pressed to set up the training that provided its workers with the basic skills needed for its new quality-control process, Brooks says.

Other companies, particularly small businesses, likewise would probably have to obtain outside funding and arrange with a local educational institution for training services.

Meanwhile, more help may be on the way. In early October, SBA and the Department of Education will sponsor a conference in Washington on "Retooling the American Worker." Its purpose is to alert state and local adult-literacy experts to the special needs of small companies. The two agencies also plan to join forces later in preparing a manual outlining options for small businesses in establishing on-the-job programs for teaching basic workplace skills. (Call SBA's Office of Advocacy at 202-634-6115 to be put on the mailing list.)

An earlier "how-to" manual for businesses seeking to upgrade workers' basic skills, titled *The Bottom Line*, has been a best-seller since its publication last spring by the Department of Education and the Department of Labor. (For information on how to obtain a copy of *The Bottom Line*, to order other materials or contact organizations that can advise you on basic-skills training, see the sidebar on Page 30.)

High-Tech Tutoring

Mastering a computer brings a "sense of personal achievement," says community-center leader Antonia Stone, shown at right with student Pat Person.



PHOTO: ED JOSEPH

One of the most effective tools that your employees can use in learning job-related tasks as well as basic skills is your company's personal computer.

Success in using a computer can expand an adult learner's employment opportunities, and it "results in a tremendous sense of personal achievement," says Antonia Stone, executive director of Playing to Win, Inc. It is a nonprofit group that operates a computer-oriented community center in the basement of an East Harlem, N.Y., housing project.

Stone says that time and time again she has seen a person's pride at mastering equipment as sophisticated as a computer become the motivation for continued learning.

Unlike many of her colleagues, Stone does not use software designed to teach adults basic skills, although she says some of it is very good.

Instead, she favors off-the-shelf business software.

At Playing to Win, poor writers upgrade their skills by writing short stories with commercial word-processing packages such as Microsoft Word and MacWrite for the Apple Macintosh.

Basic arithmetic is taught by having students create graphs and charts out of home-budget data with the Lotus 1-2-3 spreadsheet. To expand their vocabularies, they build lists of synonyms with PFS:File, an entry-level database program.

Small businesses that are thinking of investing in basic-skills training for their employees may want to find programs that use business software in the classroom. That way, says Stone, "you will be getting double the value for your money."

How can you, as an employer, identify and rectify shortcomings in the basic skills of your workers? Experts offer these suggestions:

Identify the symptoms. When Northern Tube uncovered basic knowledge deficiencies in its labor force, it was six months into SPC training, and the introduction of statistical process control had to be delayed for three months. But an employer need not wait until change is imminent to learn that employees must brush up old skills or master new ones. Lawrence Mikulecky, a professor of education at Indiana University and a consultant to industry, says you can identify potential trouble spots simply by observing and talking to employees and their supervisors.

One useful technique is to ask top performers which skills they use most and how they use them. Find out how they break in new employees, for example, and how they decide what to do first. The answers can become reference points for observing other workers and identifying difficulties.

Assess individual needs. Once Northern Tube realized that its work force was not ready for SPC, it requested a $40,000 grant from the state to pay for testing that would determine the areas in which employees needed new or additional training. Later, in a company-wide orientation program led by an adult-education specialist from nearby Delta Community College, workers were told about the testing and why it was needed—with stress on competitive demands to embrace technological change. Afterward, 139 employees agreed to take the tests.

Testing was made voluntary in the belief that there would be greater response if workers did not feel coerced. Northern Tube also promised confidentiality. "We knew it was a sensitive issue," Brooks says, and the company did not want to give workers a reason to fear that their scores might be held against them.

The results showed that half of Northern Tube's workers were below the 10th-grade level in reading and below the 9th-grade level in math. While the scores were above national norms,

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they were not sufficient for handling SPC materials, which are written to be understood by workers with the skills level of a college freshman.

Design a training program. Northern Tube had two choices: It could rewrite SPC-related material to the level of the workers, or it could upgrade workers' skills to the level of the material. The company chose the second option.

Employees were invited to enroll in one or more 15-session courses, including refresher math, reading basic industrial blueprints and introductory SPC. To achieve maximum benefit for the employees and the company, Northern Tube insisted that the curricula be tailored to the shop floor's routine.

Combining remedial education with job-specific training, literacy experts say, produces the best results. For new knowledge to be transferred to the workplace, says education professor Mikulecky, it has to be taught in the context of its everyday applications.

Select a training partner. In Delta Community College, Northern Tube found an education provider experienced in both adult-literacy training and customizing curricula for industry.

Benita Somerfield, special adviser in the adult-education division of the U.S. Department of Education, recommends two starting points for employers seeking help in selecting a training partner: their state office for adult education and the local private-industry council.

The adult-education agency will know which nearby schools offer job-specific training.

Private-industry councils, or PICs, were created under the Job Training Partnership Act of 1982 and operate in 600 locations. PICs decide how to spend federal money for training disadvantaged and dislocated workers. (Information on PIC locations can be obtained from the National Association of Private Industry Councils, 202-289-2950.)

A PIC is a good place to meet other employers interested in tapping state resources for training. Through a PIC in Massachusetts, a group of small-business owners met and decided to seek $49,000 from the state Labor Department for Project Literacy, a basic-skills program for the companies' employees. The program now operates out of Wesco Electrical Company in Greenfield and Irving Paper Mill in Irving.

Project Literacy has fewer participants than sponsors had hoped for, however, presumably because some workers fear their literacy problems will embarrass them. But Wesco's human-resources director, Pat Lowell, says that "once our people start spreading the word about how valuable the training is, I think others will step forward." She adds that the benefits for workers will include more promotions from within.

Evaluate the program. You, the employer, will want to know that the training worked. So, besides looking for obvious evidence of success such as improved performance, you can conduct post-training interviews with participants and give them questionnaires. If you plan to repeat the program, it probably would be worthwhile to have instructors design and administer a test that measures the effectiveness of the training.

Northern Tube did not do a formal evaluation. "We didn't think we had to," says Brooks. "We see people doing statistical process control, and that is the result we were seeking." He knows also that product quality has improved. Only 0.29 percent of parts shipped fail to meet customer specifications, down from 3 percent a year ago. Furthermore, the internal rejection rate of parts has dropped from 9 percent to 2.1 percent.

"We have no doubt that our investment in basic-skills training has rewarded us two to three times over," Brooks says. "We plan to continue investing in education for the foreseeable future." More than 50 managers and workers have completed short courses in subjects such as inventory management, preventive maintenance and accounting.

As Brooks sees it, the training issue is here to stay. With technological advances speeding up and the size of the qualified labor force shrinking, he believes that America's businesses have long passed through the time "when we could take a casual approach to training and education." NB

To order reprints of this article, see Page 90.



NEW PRODUCT NEWS . . .

Small Connecticut Company's New Golf Ball Flies Too Far — Could Obsolete Many Golf Courses

". . . it would turn the course into a par-three, and real men don't play par-three's."

Pro Hits 400-Yard Tee Shots During Test Round

Want To Shoot An Eagle or Two?

By Mike Henson

MERIDEN, CT — A small golf company in Connecticut has created a new, super ball that flies like a U-2, putts with the steady roll of a cue ball and bites the green on approach shots like a dropped cat. But don't look for it on weekend TV. Long-hitting pros could make a joke out of some of golf's finest courses with it. One pro who tested the ball drove it *400 yards*, reaching the green on all but the longest par-fours. Scientific tests by an independent lab using a hitting machine prove the ball out-distances all major brands dramatically.

The ball's extraordinary distance comes partly from a revolutionary new dimple design that keeps the ball aloft longer. But there's also a secret change in the core that makes it rise faster off the clubhead. Another change reduces air drag. The result is a ball that gains altitude quickly, then sails like a glider. None of the changes is noticeable in the ball itself.

Despite this extraordinary performance the company has a problem. A spokesman put it this way: "In golf you need endorsements and TV publicity. This is what gets you in the pro shops and stores where 95% of all golf products are sold. Unless the pros use your ball on TV, you're virtually locked out of these outlets. TV advertising is too expensive to buy on your own, at least for us.

"Now, you've seen how far this ball can fly. Can you imagine a pro using it on TV and eagle-ing par-fours? It would turn the course into a par-three, and real men don't play par-three's. This new fly-power forces us to sell it without relying on pros or pro-shops. One way is to sell it direct from our plant. That way we can keep the name printed on the ball a secret that only a buyer would know. There's more to golf than tournaments, you know."

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Mike Hensen is a free-lance sports writer who covers golf extensively.

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News For Entrepreneurs

At Home On The Job: A Change Of Place For A Better Life

The number of Americans working from home full time or part time is increasing, according to a 1988 survey conducted by LINK Resources, a market-research firm based in New York. LINK says its survey shows that 6 million men and women are working full time from home this year, compared with 4.9 million last year.

The firm also says that some 25 million Americans work 8 hours or more per week from home or do some work on their own time on tasks connected with their primary employment outside the home. This total now accounts for about 20 percent of the work force, LINK says, and will grow to about one third by the year 2000.

Thomas Miller, research director of LINK, presented these findings at a symposium on the trend toward home-based work. Titled "Home Workstyle," the meeting was sponsored by Work-

Sarah Edwards, who cohosts a radio show with her husband, Paul, from their Los Angeles home, says working at home is "like having flowers delivered to me every day."



PHOTO: BART BARTHOLOMEW

bench, a company that designs and retails home-office furniture.

Warren Rubin, founder and chairman of Workbench, told the meeting, "We're discovering that the quality of one's work is not necessarily related to where the work is produced." He said that many Americans are "opting out of the cubbyholes and rigid schedules of big-company life."

Those working at home, Miller said, "are chasing the American dream, and the prize is quality of life." Workers are moving their offices home to explore their own interests, create flexible hours, cut down on commuting time and increase their productivity, he said.

"It was the psychological aspects of working at home that brought me here, and the psychological aspects that keep me here," said Sarah Edwards, Los Angeles-based producer and host of the radio show "Wake Up to Success." These psychological aspects, she explained, are centered on a "sense of control," particularly over her time, activities and priorities. When she and her husband, Paul, who cohosts the show, began working from their home in the 1970s, they were mavericks. Now they are part of a working population growing so fast that they are undertaking a radio program directed to the home-based worker. "The Home Office Show" began in September.

After nearly 15 years of pursuing her career from home, Sarah Edwards described working in her home office as "like having flowers delivered to me every day."

Those who don't succeed at working at home, some experts say, are generally those who are not sufficiently self-directed, goal-oriented, creative and internally motivated.

In their book *Working From Home* (Jeremy P. Tarcher, $11.95), the Edwardses offer tips for those establishing home-based businesses. Among the suggestions:

Keep home and office separated. Define your workplace. Don't work in your living room; don't live in your workroom. Get a business telephone separate from your home phone. Set work hours and stick to them.

Avoid isolation. Home is a base, not a whole world. Work *from* it, maintaining social skills and business contacts. Participate in local workshops and seminars. Meet peers for lunch.

Watch for danger signals. Change may be necessary if you feel cramped for space, if work seems to be taking over your personal life, if you continually procrastinate, if you're late for appointments and if you miss deadlines.

Some simply find they don't like giving up the familiar office environment—the camaraderie, the paper-strewn desks, the press of project deadlines. For others, like Paul and Sarah Edwards, working at home is the best option.

Paul reported to the meeting that when he and Sarah worked outside their home, they had little energy or time for their son. "When he would be polite to us and misbehave for the housekeeper," Paul joked, "we knew we needed a change."

—Alison A. Knocke

Getting Started



ILLUSTRATION: WANGOON LEE—EUCALYPTUS TREE STUDIO

"The Business Plan for Homebased Business" offers a step-by-step guide to developing a business plan for starting a company in your home.

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Write to *The Entrepreneurship Forum*, The Center for Entrepreneurial Studies, Graduate School of Business Administration, New York University, 90 Trinity Place, New York, N.Y. 10006; or call (212) 285-6150.

Zero In On Reality

The biggest pitfall for an entrepreneur is an unrealistic attitude about what can be accomplished—and when.

That's what Jeffrey P. Davidson, author of *Avoiding the Pitfalls of Starting Your Own Business* (Walker & Company, $19.95), told *Nation's Business* in a recent interview. "What I've found is that the typical entrepreneur expects to reach a certain level of revenue in one third of the time it will really take," he says. For example, an entrepreneur who expects $200,000 in sales by the end of the first year probably will take three years to reach that level.

Moreover, Davidson warns, expenses are generally double what the start-up entrepreneur thinks they will be in the first year. There usually are various unexpected expenses, such as plumbing repairs or a charge for having the parking lot cleared after a snowstorm. Although sometimes small, these expenses add up. No matter how carefully you have estimated your expenses, says Davidson, "I still say double them, and you'll be closer to reality."

Entrepreneurs' Bookshelf

Most business owners say their employees are their companies' most valuable assets. For those owners, a key to success must lie in creating a work environment where employees are happy, creative and productive.

Two current books can help an entrepreneur do just that.

A Great Place To Work (Random House, $18.95), by Robert Levering, is subtitled *What Makes Some Employers So Good (And Most So Bad)*. In order to take a deeper look at what makes a workplace a great place to work, Levering revisits employees at 20 of the companies he profiled in an earlier book, *The 100 Best Companies to Work for in America*, which he wrote with Milton Moskowitz and Michael Katz.

One finding is that despite their reputations as exciting, caring companies where the norm is hard work and the atmosphere is like that of a big happy family, entrepreneurial workplaces have a darker side.

Managers of such companies avoid tying their own hands by shunning clearly established rules, Levering says. "They benefit from the employees' long hours of work. After a period of time, employees can burn out, and those who aren't willing to maintain the grueling pace can find themselves subjected to ostracism from the happy family."

In contrast, he says, a good place to work "provides room" for people who just want to work 8 hours a day and to have other commitments besides work.

"It's simply not fair for an entrepreneurial-style workplace to demand that work be the only thing in people's lives," Levering contends. "It gives people no room to grow or become more fully human," he adds.

From an employee's viewpoint, Levering says, "a great workplace is one in which you trust the people you work for, have pride in what you do and enjoy the people you are working with."

Take This Job and Love It (Fireside, $9.95 paperback), by Dennis T. Jaffe and Cynthia D. Scott, is aimed at helping employees revitalize their work without leaving their companies. But in describing what makes work satisfying, the authors send clear messages to employers as well: "The most powerful companies have found the formula to make you want to do what the company needs you to do. They take time to inspire employees, and they respect and affirm the people who work there."

Jaffe and Scott, who are organizational consultants, contend that employee burnout is the result of companies operating on "obsolete assumptions about human nature." In such companies, they say, workers are paid to do specified tasks under watchful supervision and to be passive and unquestioning.

Traditional companies have operated like orchestras, where the music is selected by the conductor and the group is "synchronized into alignment."

But the effective new workplace, say the authors, is more like a jazz group where "there are major themes, but each person has space to improvise ... However, despite all this individuality, the most meaningful music comes from a group where each member instinctively harmonizes with the others, and individual contributions fit into a broader whole."



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COMMENTARY

Mandated Benefits, Mandated Misery

By Warren Brookes

On April 21, Gov. Michael Dukakis spotlighted what liberals hope to make the political agenda for the nation over the next four years. He signed a bill that day mandating that all employers in Massachusetts provide health insurance for all their employees.

A measure to require that all companies in the country provide mandated health insurance is now in Congress under the sponsorship of Sen. Edward M. Kennedy (D-Mass.).

These actions by Kennedy and Dukakis are part of an ominous trend for business—the increasing attempt by politicians to force business to pay for a wide range of social programs designed to curry favor with constituents.

Dukakis' health-care bill offers a prime example of the darker side of this approach, however.

While the signing of that measure was a political triumph for the governor, it could prove a costly mistake, both for business in Massachusetts and the state's economy. And it provides a warning of what could happen if mandated health insurance were imposed nationally.

Massachusetts lost 18,000 manufacturing jobs in the 12 months in which the bill was being debated, while the nation gained 540,000. The job loss in Massachusetts reflected a continuation of a trend in which manufacturers, big and small, have been bailing out in large numbers—industrial jobs are down more than 90,000, which is 13 percent of all such jobs—since June, 1984. As a result, Massachusetts' manufacturing employment is at its lowest level since the recession of 1975.

One reason for the sharp decline has to be the uncertainty of future industrial costs in a state where mandated benefits—paid not by taxpayers but by employers—have become the accepted way to finance politically popular social-spending programs from plant-closing notification to parental leave to health care.

Estimates of the cost of mandated health insurance range from $600 million to as much as $1 billion a year in Massachusetts and up to $70 billion nationwide. But one thing is certain: Employers will carry the full burden.

Heavy pressure for nationally mandated health benefits comes from organized labor, which already enjoys medical and other benefits in its contracts with larger companies and wants to force similar costs on competitive smaller companies.

Another major reason for the mandated-benefits trend is the federal deficit. Politicians don't want to risk taxpayers' anger by launching new social spending that would drive the deficit higher. But they want to continue rewarding their constituencies with social programs, so they are trying to bury the cost of those programs in the bottom lines of American businesses.

The big losers in the mandated-benefits process will be the very workers for whom these benefits are being legislated, and the major beneficiaries will be the companies that help employers replace people with machines.



Warren Brookes is a nationally syndicated columnist on economic issues.

Business, in turn, will face the necessity in this very competitive world marketplace of taking defensive actions to cut costs in other ways—and that will mainly mean more automation and fewer jobs.

The irony is that the big losers in the mandated-benefits process will be the very workers for whom these benefits are being legislated, and the major beneficiaries will be the companies that make robots, automated production equipment, software and other products to enable employers to replace people with machines.

There is no better illustration of the politics of the mandated-benefits process than the new law requiring 60 days' notice of plant closings and layoffs. Members of Congress and their labor-union allies who supported this measure were very careful to conceal from the American public what the actual costs of this seemingly benign and "fair-minded" bill would be.

Those costs could be staggering. The new law, which carries heavy penalty payments for noncompliance, affects 54 percent of all workers. The principal impact will be on the small to medium-sized companies, few of which are in any position to know 60 days in advance of needed reductions in force.

Under a provision of the bill, companies hit with a sudden need to close a plant or lay off workers will be faced with two choices: Give the required notice and keep employees around in make-work situations for 60 days, or pay them two months' wages in advance.

At present, the average laid-off worker takes about 15 weeks of unemployment compensation, representing approximately half pay. The plant-closing benefit would be worth 8.6 weeks at full pay, or the equivalent of another 17.2 weeks of unemployment compensation. That would add an exposure of $11 billion, an increase of 115 percent, to unemployment compensation costs for employers of these workers.

Because employers cannot absorb such costs, look for three things to happen.

Employers with fewer than 100 workers, who are not covered by the law, will avoid adding workers who would bring their work forces within the scope of the requirement for notification on plant closings and layoffs. Second, employers covered by the requirement will automate more to reduce their severance exposure in the event of closings or layoffs. They would also deal with peak-load output by having current workers put in overtime, rather than by hiring new workers. Third, the exodus of jobs to foreign countries that do not impose such mandates on employers will accelerate.

The bottom line will be lower employment and a less buoyant economy, and the big losers in this mandated misery will be smaller businesses and the ordinary worker. NB

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SPECIAL REPORT

TRUCKS



Bargains By The Truckload In New Models

By Julie Candler

An aircraft-parts manufacturer shopping for 14 medium-duty trucks approaches a truck dealer for Brand A. The dealer works with the customer to determine specifications that would satisfy the parts maker's needs, and then quotes the lowest price that would allow a reasonable profit.

The parts manufacturer next visits a dealer for Brand B. The second dealer, unable to meet Brand A's price for 14 equivalent trucks, calls the factory's sales department. There, dealers can obtain the truck manufacturer's price assistance to help clinch a tough sale. The dealer for Brand B gets factory money to sweeten the deal and, as a result, gets the sale. The buyer gets a great price.

That's how it is in the medium-duty truck market now. And good values are also available to buyers of light trucks, namely those in weight Classes 1, 2 and 3, which are trucks up to 14,000 pounds gross vehicle weight (GVW).

Automotive analyst Ann Knight, in the New York office of the investment firm of Paine Webber, Inc., estimates that car and light-truck price increases will trail inflation by 2 to 3 percentage points over the next few years. Sales incentives, she predicts, will be needed for a long time to reduce dealer inventories of cars, pickups, vans and some utility vehicles. The incentives may be smaller than those of previous years, but they will still be there for the dealing, particularly late in the model years.

The competition is even stronger for sales of medium-duty and heavy-duty trucks, that is, trucks in Classes 4 through 8, weighing 14,001 pounds GVW or more. Production capacity for trucks in those weight classes exceeds demand. Many companies have merged in recent years, and there are rumors

Julie Candler is an automotive writer based in Detroit.

PHOTO: CRAIG WAGNER—STUDIO X, INC.



that more mergers are still to come.

In 1987, the makers of medium- and heavy-duty trucks sold a total of only 288,335 vehicles in the United States, down from the peak-year 1979 output of 374,791 vehicles. The manufacturers of Class 8 (33,001 pounds and above) over-the-road vehicles divided up 131,156 sales, down from 173,543 in 1979.

Competition is affecting their customers as well. "Most heavy-truck buyers are in a profit squeeze," says Jeff Kahn, Ford Truck Operations' heavy-truck marketing manager. "They have to reduce their costs to stay in business. So when they buy trucks, they are looking for bargains. Because of that, we haven't been able to increase prices in recent years." Peter Rupp, chairman of Freightliner/Mercedes, calls the price-cutting "ferocious."

A further profit squeeze is hitting truck importers. Since the value of the dollar has dropped in relation to other currencies, importers must pay higher prices for products from other countries. But to retain their market share, most are not passing along all of the increased costs to their customers. "Our prices went up only a couple of percentage points," says Thomas S. Neil, II, manager of marketing communications for Mitsubishi Fuso of America, Inc., marketer of Japanese-made Class 3, 5, 6 and 7 trucks. "You have to be competitive with your pricing these days or you can't sell trucks."

There's "braking news" in the light-truck industry. By 1990, antilock braking systems will become standard on most light trucks built in North America. Chevrolet forecasts that four of its five 1989 models will be equipped with such brakes. The antilock feature operates only when a vehicle's rear wheels begin to spin on a slippery surface. When that happens, a microprocessor modulates pressure in the rear brake line. The device inhibits rear-wheel lockup, preventing rear-wheel skid.

Other news in the light-truck field is the Japanese imports' drop in market share, from 16 percent in 1987 to under 12 percent this year through July, primarily because the sliding value of the dollar caused price increases. Adding to this problem facing Toyota, Nissan and others is the success of some new vehicles from Detroit, such as the Ford Ranger, Chevrolet S-10 and GMC S-15, combined with domestics' incentives.

In July, General Motors offered a $500 rebate to buyers of its full-size Chevrolet C/K and GMC Sierra 1500-3500 series pickups. Chrysler has offered rebates on some Jeep models. In the 1988 model year, some incentives were reduced but not eliminated.

Although the continuing shakeout in the global automobile industry has left only three major U.S. manufacturers—Chrysler, Ford and General Motors—it has not dampened overseas manufacturers' competitiveness in the U.S. market. Toyota, Mazda, Nissan, Isuzu and Mitsubishi are just a few of the names on the 64 light-truck models sold in the United States.

The number of imported models will grow in the next few years as most of the world's automakers go after the big U.S. market. About 50 automotive companies will be selling cars through American dealers. Some will import pickups despite the 25 percent U.S. import tax on trucks. According to forecasts by *Ward's Automotive Yearbook*, light trucks will be imported from countries as distant and diverse as Romania, India and Spain.

Moreover, foreign manufacturers such as Toyota, Mazda and Isuzu are considering opening plants—or "transplants"—in the United States, as did Nissan, which now makes pickups in Smyrna, Tenn. The foreign makers' U.S. manufacturing might be joint ventures with U.S. truck makers. That type of arrangement would enable the foreign truck makers to circumvent import taxes and the devalued American dollar, which make many nations' vehicle prices uncompetitive in the States.

Some changes are in the works at "transplants" as well. Nissan is said to be considering expanding its Tennessee plant. Isuzu plans to produce pickups next year for the 1990 model year in Lafayette, Ind., through a joint venture with Fuji Heavy Industries, manufacturer of Subarus.

The Japanese are extending their reach for truck sales in the United States. In 1990, Toyota is expected to invade the market for larger pickups by adding a midsized model to its compacts. "By 1992, six of the nine Japanese automakers will be marketing minivans in the United States," says Jesse Snyder, West Coast correspondent for *Automotive News*.

From the United States and overseas, new Class 3 entries are arriving as demand increases for trucks ranging from 10,001 to 14,000 pounds GVW. They are smaller trucks with the toughness of heavier models, usually available with optional, smooth-operating automatic transmissions. Their ranks include the stepvans that are in demand for efficient urban deliveries.

Midsized imports are rolling along American roads in unexpectedly large numbers. Hino, Isuzu, Mitsubishi Fuso and Nissan from Japan, as well as Iveco from Italy, are expanding their dealer networks and emphasizing vehicles for frequent, short-run, intracity deliveries of smaller loads. Some of their lines also include the lower range of Class 8 heavy-duty trucks for longer-distance runs with heavier loads such as fuel oil, retail beverages, refrigerated goods and construction materials.

U.S. truck builders are answering with imports of their own, such as new Class 7s produced for Kenworth and Peterbilt at Volkswagen do Brasil, Ford's Cargo from Brazil and GMC's Forward series from Isuzu of Japan. Navistar International is offering four products from Nissan. (GMC, meanwhile, is revving up for pilot production in Janesville, Wis., of all-new GMC/Chevrolet 1990 mediums.)

Sales of Class 4 vehicles have picked up since Ford introduced its SuperDuty pickup in 1988. It provides what *Automotive News* calls the solution for "Class 3 buyers who might otherwise have bought a light-duty truck and overloaded it, or a Class 5 and underutilized it."

Among the most popular models are the Hot Shots, which are low-frame vehicles that allow 10-foot-high loads in all portions of the trailer while keeping within height limitations. With their higher cubic volume, Hot Shots are ideal for hauling bulky light freight without moving to more costly Class 8 equipment. Their popularity is prompting more truck makers to produce their own versions of medium-duty tractors with low frame height. When Ryder Truck Rental announced its Low Ryder, Hi Cube van, Tom Campo, a public-relations representative for Ryder, said its

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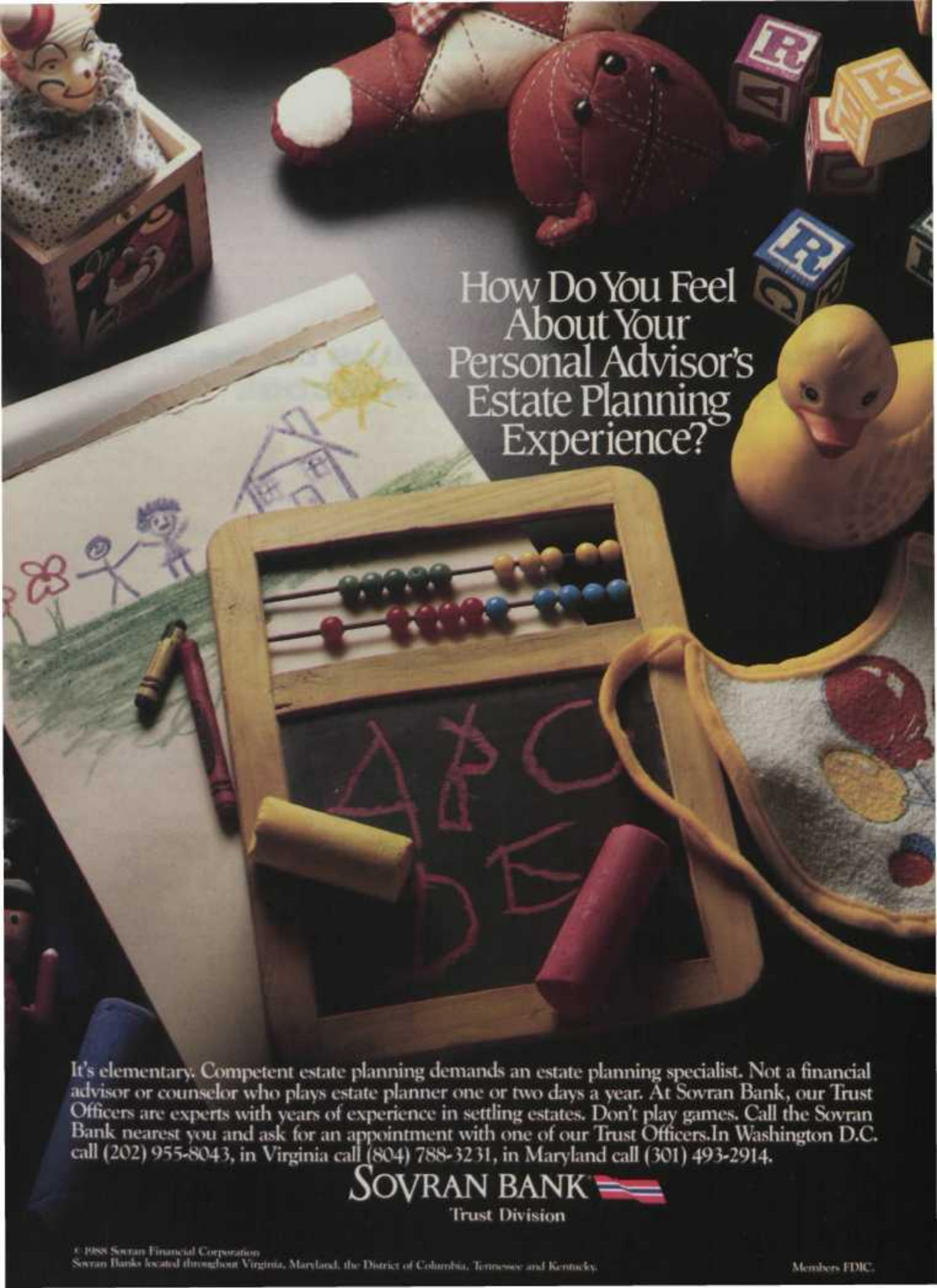
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type of tractor-trailer combination would be the "truck of the future." The Low Ryder uses tractors designed to fit Ryder's low-tractor specifications; they are made by Navistar International and Freightliner.

The demand is increasing for cab-over-engine (COE) heavy trucks. The shorter dimension from the bumper to the back of the cab lets haulers increase their loads by using the 53-foot trailers now legal in many states. "The average truck body used to be 20 or 22 feet long," says John Hanrahan, vice president of sales and marketing for Hino Diesel Trucks (USA), Inc., of Orangeburg, N.Y. "Now we have some customers even going out to 30-foot trucks."

Meanwhile, the switch away from gasoline engines is moving so fast that by 1990, 75 percent of all Class 6 and 7 trucks are expected to be manufactured with diesels. Along with that is a trend to longer life and longer guarantees for components of medium-duty and heavy-duty trucks. Navistar's new tandem-axle line is backed by a five-year, 500,000-mile warranty. The company's two new tandems have been "specifically designed to match the specifications and driveline requirements of our new aerodynamic tractors for line-haul applications," says Robert M. Shaughnessy, Navistar's senior vice president for marketing and sales.

Truck makers are predicting that sales of both light-duty and heavy-duty vehicles will remain high for the 1989 model year. Thage Berggren, president and chief executive officer of Volvo GM Heavy Truck Corporation, Greensboro, N.C., thinks users will step up their buying because technological advances in new trucks make them more economical to operate.

And with advances in electronics and aerodynamics, you can expect more million-mile trucks.

Trucks made up 32 percent of the entire vehicle market in 1987, reflecting the continued demand for light pickups, vans and utility vehicles for personal and family transportation.

And truck sales are growing. While last year's car sales were almost 11 percent below the previous year's, truck sales climbed almost 2 percent.

For 1989 models, the costs of automotive steel and other materials are rising slightly, and some list prices will go up a few percentage points. But as long as the truck market is so important to so many manufacturers worldwide, customers can find good deals as they shop for those more-efficient, durable and economical vehicles.

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SPECIAL REPORT

Light Trucks



Dodge And Plymouth. Chrysler Corporation has stepped up production of the roomier and longer-wheelbase versions of its Plymouth Voyager (above) and Dodge Caravan minivans to meet demand from commercial users. Dodge's standard-size vans now have electronically controlled, four-speed automatic transmissions with overdrive plus a new center console with sections for holding papers, cups, maps and other items. Dodge Division, marketer of most of Chrysler's trucks, offers an optional 5.9-liter, six-cylinder Cummins Engine turbo diesel for its full-size 1989 Ram pickup.



Chevrolet/GMC. The optional 4.3-liter, V-6 power plant will be more available for the Chevy S-10 pickup and its twin, the GMC S-15 (above). GM says it is the biggest engine ever offered in a compact pickup. Both Chevy and GMC have added rear-wheel, antilock braking as standard equipment on the S-10 and S-15 and on the Chevy Astro and GMC Safari vans. By the 1991 model year, Chevy and GMC are expected to bring out utility vehicles, like the Blazer and Jimmy, built on the platforms of the new full-size C/K and Sierra pickups. For those who want a handy little vehicle, Chevrolet introduces the Geo Tracker, a low-cost import from Suzuki.



Mitsubishi. Japan's four-door Montero is well suited for driving around construction sites, where it can survive potholes and other rough terrain. The Montero offers a 3.0-liter, V-6 engine; on-demand four-wheel drive; and 94 cubic feet of cargo space. This sport-utility vehicle is arriving at dealers for Mitsubishi Motor Sales of America, Inc., Universal City, Calif.



Isuzu. The latest compact pickup moved into traffic in March when American Isuzu Motors, Inc., of Whittier, Calif., introduced the TF, a Japanese import. The TF, says E.F. "Fritz" Kern, vice president for marketing, has "stronger lines and a tougher look" than the P'UP it replaces. The 1988 pickup has a bigger, 2.6-liter engine—standard on four-wheel-drive models, optional on two-wheel drives—and comes in short, long-bed or 2 + 2 Spacecab versions. From Isuzu Truck of America, Inc., in South El Monte, Calif., comes the 1989 NPR Flatlow, a Class 3 light, one-ton commercial truck with a lower, flat floor to ease hand loading.

Some light-duty trucks have been revamped for 1989, and several new models are showing up on dealers' lots. On these pages are some of the latest offerings in weight classes 1 (up to 6,000 pounds), 2 (to 10,000) and 3 (to 14,000).



Mazda. The sleek shape of the cargo version of Mazda's new MPV van contributes to reduced drag, better stability and less wind noise at highway speeds. Mazda says the design provides body rigidity for a solid, stable feel and for a quiet, comfortable ride. The van has a standard 2.6-liter, 12-valve, in-line four-cylinder engine designed specifically for it. An optional 3.0-liter, 18-valve, overhead-cam V-6 offers improved breathing, torque and performance in the low- and mid-rpm ranges. The MPV van's hinged side door allows a larger opening than a conventional sliding door. A large rear hatch opens to bumper height for easy loading.



Toyota. Toyota is making a bid for more commercial sales with two new upscale pickups. The company is increasing the gross vehicle weight of its commercial chassis. Its V-6 engine, introduced on last year's four-wheel-drive pickups, is now available on all new 4x2 models. Shift-on-the-fly, on-demand four-wheel-drive is offered on the redesigned 4x4 trucks. With sales down, Toyota is seeking to affiliate with a domestic truck maker for producing its light-duty pickups in the United States.



Ford. The 1989 Aerostar vans arrive in a roomier stretch model with the cargo area enlarged by 28 cubic feet. Ford is replacing the Ranger compact pickup's 2-liter engine with a more powerful 2.3-liter version that is multiport-injected (two plugs per cylinder). The Ranger's redesigned headlight assemblies can be slipped out for bulb replacement. Heavy-duty models of the Econoline van, Club Wagon and F-series pickup get electronically controlled, four-speed, automatic overdrive transmissions in place of last year's three-speed automatics.



Nissan Diesel. UD Trucks, marketed by Nissan Diesel America in Irving, Tex., announced a new Class 3 UD1100 truck in April. It has a gross vehicle weight rating of 11,000 pounds and handles van bodies from 12 to 16 feet in length. It is equipped with a 120-horsepower, turbocharged Nissan Diesel FD35T and an optional four-speed overdrive automatic transmission.



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SPECIAL REPORT

Medium And Heavy Trucks



Freightliner. In April, Freightliner, the No. 2 retailer of Class 8s, introduced five models in its "New Generation." Thunder and Lightning is the name of new premium editions of Freightliner's Raised Roof cab-over-engine (COE) and its Raised Roof Conventional. The T&Ls offer a built-in aerodynamic roof fairing that has a walk-in sleeper with double bunks. The Baby 8 Model FL 112 is a medium-length conventional with a midrange power train to reduce costs for short-haul use. Freightliner also introduced a COE with a set-back front axle, a COE with a set-forward front axle and (above) a long conventional model with set-back front axle.



Iveco. The Class 5 EuroTurbo 340 (above) from Iveco has a gross vehicle weight of 18,900 pounds, and the Class 6 EuroTurbo 450 has a GVW of 22,800 pounds. A new roll-back body enables three Iveco cab-and-chassis medium trucks to haul one standard-size car each on their decks while towing another vehicle. The Jerr-Dan Wrangler body is available on the Class 4 Euro 220 and EuroTurbo 220, and the Class 5 EuroTurbo 230. The truck maker's new "city-friendly" contoured van body can handle 647 cubic feet of cargo. It can be mounted on the Class 3 Euro 110 or 220 and EuroTurbo 120A and 220 cutaway chassis.



Western Star. Serving notice that it will be a major player in the Class 8 market, Western Star Trucks of Nashville, Tenn., introduced five new series of trucks this past spring. The aerodynamic Baby 8, for in-town use, has a fiberglass tilt hood and a maximum 56,000-pound GVW. The 4800 (above) is a short-nose conventional for use as a dump truck, mixer or bulk carrier. The 4900, a long-nose conventional of up to 444 horsepower, is for highway use. The 6900, a long-nose conventional with a GVW up to 105,000 pounds, is for severe off- or on-off-highway use. The long-nose 7900 has 525 horsepower and a GVW of up to 105,000 pounds.



Hino. Hino Diesel Trucks (USA), Inc., in Orangeburg, N.Y., has introduced its newest truck, an SF model to complement its line of 30 Class 5, 6 and 7 products. The new model has full air brakes and a 30,000-pound gross vehicle weight. It can handle tanker, refrigerated or dry freight. The increasingly popular cab-over-engine design in heavy trucks permits "a longer body and, with set-back front axles, ... just as good maneuverability," says John Hanrahan, vice president of sales and marketing for Hino Diesel Trucks (USA). Hino is the leading manufacturer of medium-duty and heavy-duty trucks in Japan.

Trucks for medium and heavy duty are tougher and more versatile than ever. These descriptions cover some of the significant changes or new models in weight classes 4 (14,001 to 16,000 pounds), 5 (to 19,500), 6 (to 26,000), 7 (to 33,000) and 8, which is any truck over 33,000 pounds.



PACCAR. PACCAR Sales North America, Inc., of Bellevue, Wash., last February launched Class 7 Kenworth Mid-Ranger (TM) 22-210 and Peterbilt Mid-Ranger (TM) 22-210 tractors. Named for their 210-horsepower engines and 22-metric-ton weight ratings, the COEs from Volkswagen do Brasil have American-designed components and follow the Kenworth and Peterbilt Mid-Ranger 13-210 (above) launched in 1987. Last March, Peterbilt announced its new Model 376, a medium-duty conventional aimed at the premium end of the light Class 8 market. In April, Kenworth introduced a T400A, a Class 8 designed for pulling 53-foot trailers.



Ford. Building on the success of the Class 4 F-Super Duty 4x2 chassis cab introduced in 1988, Ford is adding commercial stripped-chassis models for 1989. One, with a 158-inch wheelbase, has dual rear wheels, a 7.3-liter diesel engine and a GVW of 16,000 pounds, or 1,500 pounds more than the chassis cab. Ford's major change for diesel-powered trucks is a transmission designed for use with high-torque-ride engines and Spicer clutches. New "space-age" sleepers for 1989 Ford LTL, LTS and the new 1988 AeroMax conventional Class 8s (above) weigh up to 40 percent less than earlier units. Some have double bunks and air conditioning.



Volvo GM. After Volvo GM Heavy Truck Corporation began operating in Greensboro, N.C., last January 1, the new joint-venture company began production of an all-new WhiteGMC Autocar (above), designed for tough-use markets such as construction, refuse and mining. The new Class 8 is available in six truck models, two tractors and two all-wheel-drive models. The corporation also announced that Volvo drivetrain components are now available in the United States for specification on WhiteGMC trucks. All domestically built models carry the WhiteGMC label, while Volvo designates the imports.



Navistar. Navistar International Corporation, the No. 1 truck manufacturer in the United States, is introducing new tandem axles that offer weight-saving advantages without sacrificing performance and durability. The X 400 axle, rated at 40,000 pounds, became available in August, and the X 340, rated at 34,000 pounds, is expected in early 1990. Navistar's new tandem-axle line has a five-year, 500,000-mile warranty. Navistar has been filling orders from U-Haul Rental Systems, Inc., of Phoenix for 6,100 "Super-Mover" trucks for do-it-yourself movers of household goods. The 27-foot vehicles have a 1,500-cubic-foot capacity.

Arguing Against Tax Increases

By Robert T. Gray

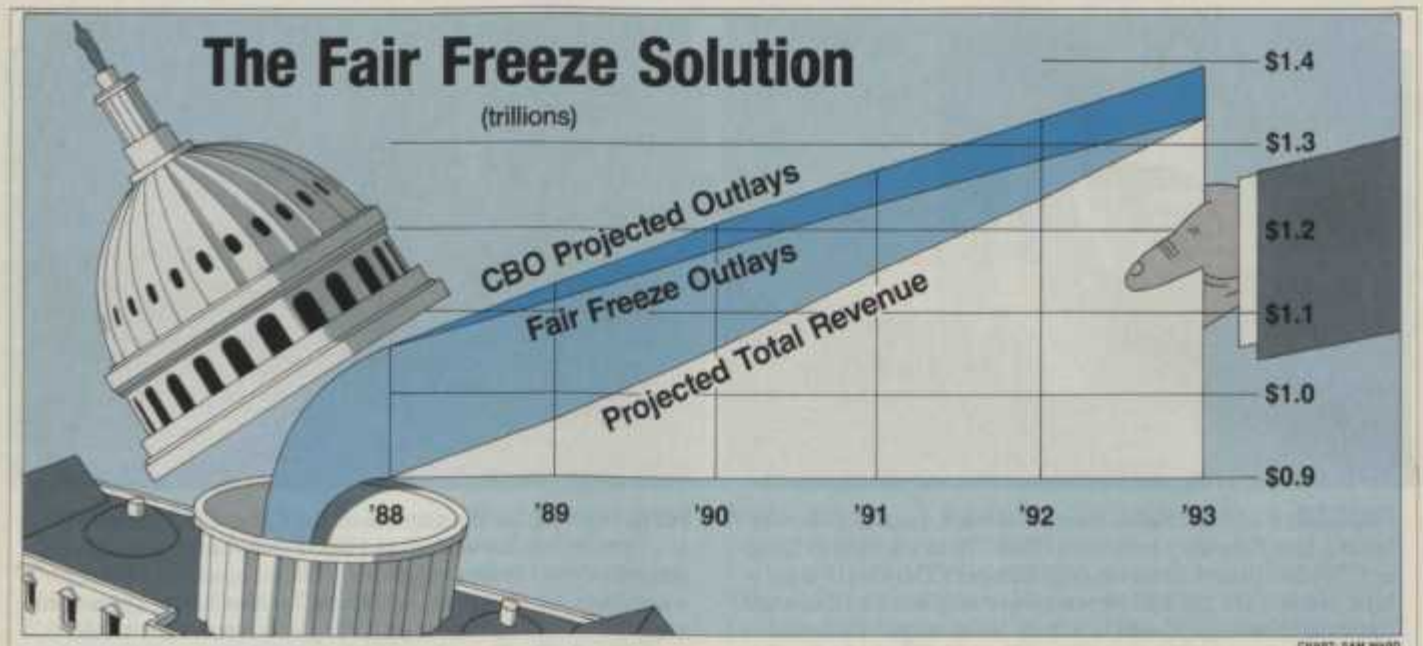


CHART: SAM WARD

Vice President and GOP presidential candidate George Bush promises voters that "I will not raise taxes—period." Massachusetts Governor and Democratic presidential nominee Michael Dukakis says he would raise taxes "only as a last resort."

Despite those statements, there is a growing expectation in Washington that the question of whether a tax increase is necessary to eliminate the federal budget deficit will be the top fiscal-policy issue for the new President and new Congress taking office in January.

The focal point of that expectation is the relatively unknown National Economic Commission, a bipartisan group created by the President and Congress to recommend ways to eliminate the budget deficit and maintain economic health.

The commission's report is due next March 31. Because of the political sensitivity of its agenda, it is keeping a deliberately low profile during the presidential campaign.

It has nevertheless become increasingly controversial because of the view of many people in business and government that it was created for the specific purpose of developing tax-increase proposals that Congress is reluctant to initiate itself.

While the lawmakers would have to vote on any tax boosts, past experience has shown that they are more comfortable doing so if voters perceive that the prime mover behind the boosts was an outside bipartisan panel.

Despite the economic commission's low visibility thus far, it is figuring in the early stages of the fiscal-policy debate.

Robert Strauss, the commission's Democratic cochairman, has said that deficit reduction through spending cuts is a good concept, "but there's no easy fat to trim."

That type of comment has fueled the widely held view that the panel's real purpose might be to provide protective cover for members of Congress bent on raising taxes next year.

The panel's critics include Bush, who bluntly refers to it as the "tax-raising commission."

But, as talk of tax increases proliferates, there are counterforces at work on behalf of the vast majority of business people who, polls show, are against any tax increases.

A major salvo has been fired on behalf of the antitax bloc by the U.S. Chamber of Commerce in a policy statement timed for the presidential campaign.

The Chamber's principal theme: Economic growth and spending restraints can shift the federal budget into surplus by 1993 without a tax increase.

Its position paper was written by Richard W. Rahn, Chamber vice president and chief economist. It was submitted to the Republican Platform Committee, will be presented to the National Economic Commission and will be available as a major weapon for organizations and individuals who will be fighting the antitax battle well into next year.

In its declaration, the Chamber said:

"As a result of strong economic growth and effective restraints on spending growth stemming from the Gramm-Rudman-Hollings deficit-reduction act, the federal budget is moving rapidly toward balance. . . . Enough money will come in over the next five years without a tax increase to eliminate the deficit by instituting a fair freeze on spending that would fund Social Security fully, pay the necessary interest on the national debt and cover the inflation-induced cost increases in every other government program now on the books." (See chart.)

The "fair freeze" is based on a relatively conservative growth rate that, combined with the spending restraints, would produce a $2 billion federal surplus in 1993, compared with this year's estimated $154 billion deficit.

Outlays would be moderated by limiting percentage increases to the infla-

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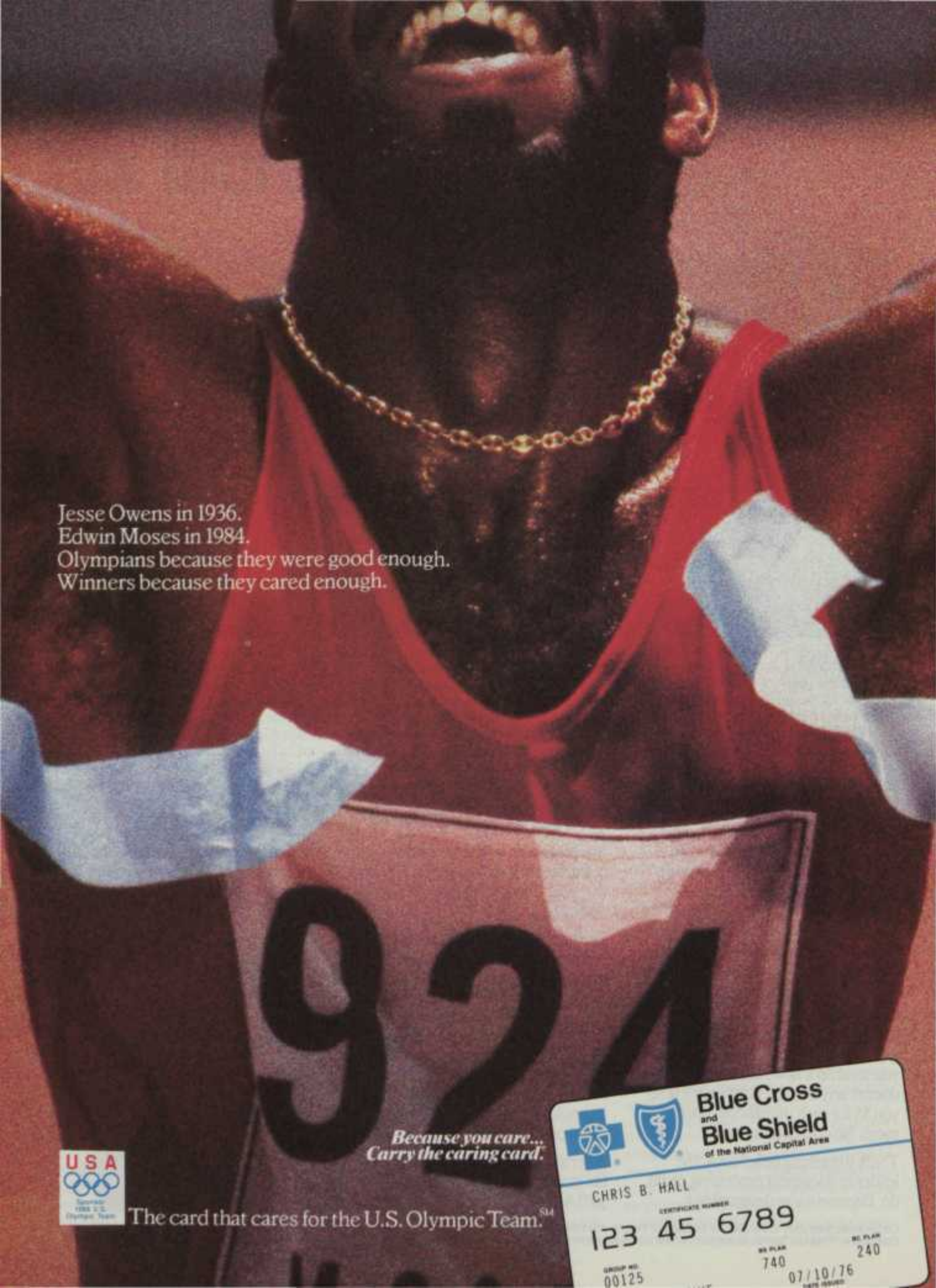
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As talk of raising taxes proliferates, counterforces are at work on behalf of the majority of business people who oppose tax hikes.

tion rate for each year. Social Security benefits and interest on the national debt would be exempt from that limitation. The Congressional Budget Office now projects 1993 outlays at $1,396 billion. The inflation-rate cap would hold that figure to $1,324 billion.

In addition to growth-based increases, the federal government could strengthen its ability to eliminate the deficit without higher taxes through an intensive program of privatization, the Chamber said.

Through privatization, appropriate government functions, facilities and resources are turned over to the private sector.

The Chamber recommends consideration of proposals developed by the Privatization Task Force, a consortium of private-sector organizations committed to restraining the reach and growth of government.

In its policy statement, the Chamber contends that strong pressures for tax increases are based on myths regarding the size of the U.S. debt and its impact on interest rates and capital formation, the ability of tax increases to increase investment and reduce interest rates and the difficulty of deficit reduction through spending restraints.

The business federation makes these comments:

Budget Deficits. The myth is that the United States is "awash in debt" and that borrowing to service it is driving up interest rates. Relative to the size of the nation's output, however, it is an exaggeration to characterize the federal budget deficit as massive. In 1980, the deficit was $73.8 billion, which amounted to 2.8 percent of gross national product. This year, it will be $146 billion, or 3.1 percent of GNP, close to the 1980 level. Moreover, the deficit is now declining, assuring that the burden it places on the economy will diminish. And the debt of the total governmental sector—federal, state and local—is comparable with that of other industrial nations. The economic facts do not warrant continued hyperbole concerning the federal budget deficit.

Capital Formation. The myth is that closing the budget gap through higher taxes, rather than borrowing, will free more capital for private-sector investment, and interest rates will fall as the competition for available funds eases. That claim fails to recognize that higher tax rates reduce incentives to work and produce, thereby shrinking revenue collections. In addition, there is substantial evidence that any tax increase comes out of savings and thereby reduces the amount of capital available for private-sector investment. The myth also ignores the real source of the capital-formation problem—excessive government spending and tax policies that discourage investment. The best way to expand the investment pool is to reduce taxes on capital gains, which are now taxed as ordinary income. Lower rates have historically produced higher tax revenues because they encourage realization of capital gains, making money available for venture capital that finances the start or expansion of taxpaying businesses.

"What is indisputably true is that there is no evidence that Congress has used tax increases to reduce deficits, nor is there any reason to believe it is likely to change its behavior."

—From a U.S. Chamber of Commerce statement

Excessive Tax Reduction. The myth is that the Reagan administration's tax cuts have been so deep that the level of spending cuts needed to eliminate the deficit would be unacceptable to the American people, and tax increases are unavoidable. The fact is that federal tax collections now represent 19.4 percent of gross national product, which is the same percentage that they represented before the deficit exploded in 1979. That explosion was the result of two fiscal phenomena—an acceleration in the rate of increase in federal spending, also beginning in 1979, and a revenue shortfall in the recession that ended in 1982. For the full 1980-86 period, revenues went up 9.5 percent a year but spending increased 11.3 percent. Since 1986, the annual growth rate in spending has dropped to 3.3 percent, while the revenue increase has stayed around 9.3 percent. The result has been a sharp drop in the deficit without the higher taxes now being advocated.

Unmet Needs. The myth is that government services, especially social programs, have been slashed over the past eight years, and that taxes must be raised to finance a vast backlog of unmet needs. Domestic spending has actually increased every year under the Reagan administration, but those who argue that it has not increased fast enough claim it has been cut.

A bottom-line question, the Chamber says, is whether Congress would use income from tax increases to reduce the deficit or to embark on new spending ventures.

While there is conflicting evidence on the point, the business group offers this response:

"What is indisputably true is that there is no evidence that Congress has used tax increases to reduce deficits, nor is there any reason to believe it is likely to change its behavior."

The business organization advances another basic argument against tax increases: Economic growth is inversely proportional to the tax burden. There is overwhelming empirical evidence, the Chamber points out, that as government takes a larger percentage of gross national product, there is more unemployment, a slower rise in real income and less progress in fighting poverty. Through unchecked tax increases, government can absorb so many resources that economic growth eventually falls to zero.

Citing U.S. fiscal policy since 1981, the Chamber concludes: "The record speaks for itself.

"Tax revenues have increased, and the deficit is shrinking. Because a tax increase is likely to be a vehicle for additional government spending rather than less, it is as likely to increase the deficit as it is to reduce the deficit. The major threat to continued economic expansion is increased government spending financed by higher taxes." NB

Laying Down The Law On Legal Fees

By Jane Easter Bahls



"Our legal bills are horrendous," says Frank Banholzer, president of Republic Savings & Loan Association in Milwaukee. With hourly fees for attorneys often exceeding $120, businesses large and small must deal with the runaway costs of legal services.

"We have to have counsel," says Banholzer, "but for many of the issues that come up, the cost of legal involvement is more than the matter is worth."

Though some companies try to save money by simply hiring in-house counsel, it is almost impossible to find a lawyer who has the expertise to cope effectively with all the complex transactions, tax planning and lawsuits that a growing company faces. Some matters still require a law firm.

Moreover, when more than one person in a company has the authority to hire outside counsel, legal costs can climb steadily. Zealous employees may call an attorney to collect every little debt or insist on pushing each lawsuit to the limit. When legal bills come in, executives may be unsure which matters were involved. A company with no policy for controlling legal work may simply pay the bills without question.

For more and more companies, however, the days of paying legal bills without question are over. Control Data Corporation, the Minneapolis-based computer company, and Travelers Corporation, the Hartford-based insurance giant, have both instituted far-reaching programs to hold the line on the cost of counsel. Their programs may serve as models for smaller companies swamped with legal bills.

"It's like anything else: If you don't manage it, it'll get out of hand," says G. Edward Martin, manager of legal administration for Control Data, which has kept legal expenses level over the years, even as revenues have increased. Martin, who has spearheaded Control Data's program of legal-cost containment, makes sure the goals for each legal matter are clearly defined. "We tell the attorneys how much we want to spend," he says, "then check with them when it's 50 percent spent, compared to when the job is 50 percent completed." In addition, he says, "we define the level of expertise we need. We may need only a junior associate instead of a partner."

Control Data also negotiates a discount on the hourly fee, based on the volume of work in a given area. "If we're going to give all our workers' compensation to one firm, we expect them to be very efficient at it," Martin says. "Everyone should feel comfortable negotiating fees. It's a buyer's market, and attorneys know that."

Control Data informs newly hired attorneys that the company expects to be billed within 30 days or at each major step. "We don't want them to come back six months later with a bill for $200,000," Martin says.

The billing policy also specifies a particular in-house attorney who is responsible for supervising the outside attorney's progress on the case. The outside attorney sends bills to the inside attorney, who negotiates a more reasonable charge if he thinks the outside attorney's fee appears to be out of line.

"It used to be *verboten* for anyone to call a law firm and ask for details on a bill," says Martin, who notes that legal bills once said only "for services rendered." Like many companies in recent years, Control Data insists on knowing who worked how long on what matter. "Law firms are happy to share that information," Martin says, "because in a buyer's market, if the company is unhappy, that law firm is out."

To limit which matters are referred to outside counsel, Control Data for the past 15 years has used a legal request form, similar to a purchase order. Anyone in need of legal services fills out the form, which is processed through the legal department. The six-digit project number on each form is matched with the bill when it comes in, to avoid uncertainty about costs. Martin notes that the amount spent is classified by law firm, by in-house attorney, by subject matter and by organization within the company: "If one area gets too high in requirements, we may decide to put two attorneys there, or hire someone in-house in that area."

As thoroughgoing as Control Data's system is, Travelers goes a step further. "Our civil-justice system is inefficient," says Senior Vice President Richard Marrs of Travelers. He maintains that many attorneys thrive on conflict. For example, he says, attorneys needing information from the opposing party could simply ask for it persuasively but are more likely to file a motion demanding it—resulting in more time and higher costs.

"I tell the lawyers we work with that they should root out these inefficien-

Jane Easter Bahls of Missoula, Mont., is a free-lance writer who covers business and legal topics.

Businesses of all sizes can learn from the experiences of companies that have set up systems for monitoring and managing legal expenses.



cies," Marrs says, "and then I'll have no problem with their fees."

Travelers has "a policy that says the least expensive lawsuit is the one you avoid," says Marrs. In many cases—including claims where only the amount that the company will pay is in dispute—Travelers proposes what is known as alternative dispute resolution: arbitration or mediation.

Arbitration involves a third party who listens to both sides and dictates a solution; mediation involves a third party who helps the two sides work out their own solution. Both systems were previously reserved for relatively personal disputes such as divorces and problems with home contractors. Travelers has found, though, that alternative dispute resolution saves the company an average of $1,000 per case, all in legal fees. Multiplied by the thousands of cases the company handles that way each month, the savings have quickly mounted into the millions.

Marrs notes that customers' attorneys participate in alternative dispute resolution, and those working on a contingent basis still get their share of a settlement. "Attorneys are happy to do it," he says, "because they get the same amount of money and get it quicker." The company's attorneys, working on an hourly basis, put in less time and get paid less.

In disputes that do go to trial, Travelers tries to keep them from getting out of hand. "We have rather tight arrangements with our attorneys," says Marrs. "We don't just say 'Here is a lawsuit—let us know when it's over.' "

Marrs talks with the attorney about expectations for a case. "If the attorney thinks we're off base, that's the time to find out," he says. "In the same discussion, we talk about alternatives for defense. Some cases are important for precedent, and we must not lose them. Others are more open to compromise." The importance of the case affects the vigor of the defense, since bringing in a dozen expert witnesses can be costly.

Once a lawsuit is under way, Travelers makes a point of remaining in control. "Lawyers tend to think of things in pieces, rather than as a whole," Marrs says. "They do a very good job of reacting to motions—but the client has to pay for it." He says a client should decide, before letting a lawyer spend a lot of professional energy on a matter, whether success will move the company toward its goals.

In an age when some attorneys keep a lawsuit grinding on year after year, Travelers tries to resolve suits quickly. "If we hear of lawyers purposely churning the case on and on, we say the practice has to stop or we'll find another law firm," says Marrs.

Though not every company has the need to institute a system as detailed as Control Data's or as revolutionary as Travelers', the basic principles apply across the board. As Control Data's Martin puts it, "The old day of the bill 'for services rendered' is out." NB

How To Cut Legal Costs

These few simple steps can help you keep your company's legal costs under control.

- Whenever it is possible, try to settle disputes out of court. Consider making use of alternative dispute-resolution procedures such as mediation or arbitration.
- When you hire an attorney, draw up a written agreement that specifies the hourly rate for each attorney and the maximum amount that the firm expects to bill. For matters that are handled on a contingent basis, agree on what percentage of the award the attorney will receive if successful. Agree also on which expenses the client must reimburse.
- Insist on a monthly itemized bill that provides for reasonably small time increments, so that, for example, a 5-minute phone call is not billed to your firm as a half hour of service.
- Review bills when they come in. If inexperienced attorneys are taking an inordinate amount of time, make sure you are not paying for their basic education. Negotiate with your attorney if bills seem out of line.
- Establish a policy within your organization on which matters are to be referred to an attorney and which employee is to be responsible for monitoring each file. Keep informed of the status of each matter, and insist on participating in the litigation process. Keep the lines of communication open.

Above-Board Bottom Lines

The Treadway Commission's proposals for more reliable financial reporting are taking hold in the public and private sectors.

By Joan C. Szabo

As the video camera zooms in on the office of Jack Portman, controller of the Handler Company, the viewer sees Portman talking heatedly with Lucas Handler, CEO and grandson of the founder of the family-run business.

Handler is pleading for a small miracle. "We need some help to make the quarter look good," he says.

But Portman resists. Why not settle for the numbers the way they are, he says. "We're a public company now. We've got to play by the rules."

Unconvinced, Handler continues his pleading: "Just get us off the hook for the quarter, and we'll give you a trip to Japan."

The fictional scene is from a new educational video produced by the National Association of Accountants as part of a campaign to help prevent abuses in financial reporting.

The nation's public-accounting profession became especially alarmed a few years ago over the growing number of headline-making financial misdeeds, several of them tied to fraudulent financial reporting by public companies. Existing controls on reporting practices sometimes were ignored. There were fears for the integrity of the financial-reporting system.

As a result, five highly respected accounting organizations formed the National Commission on Fraudulent Financial Reporting to find causes and cures for such abuses. The chairman was James C. Treadway, Jr., a former commissioner of the Securities and Exchange Commission and now an executive vice president and general counsel of Paine Webber, Inc.

In October, 1987, after nearly two years of work, the Treadway Commission, as it is called, issued its final report. Its 49 recommendations—directed at the SEC, public companies, independent public accountants and the education community—are designed to promote reliable financial reporting and to help public companies, both large and small, tighten internal controls.

Now, a year after they were issued, the recommendations are beginning to have an impact, says William S. Kanaga, a member of the Treadway Commission and the current chairman of the U.S. Chamber of Commerce.

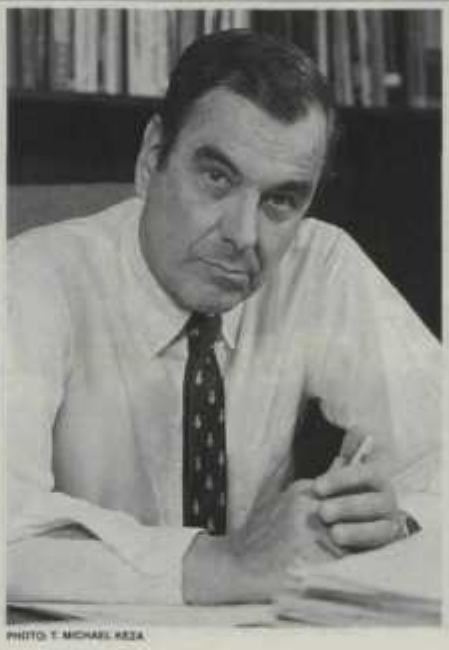


PHOTO: T. MICHAEL KEZA

William S. Kanaga, chairman of the U.S. Chamber, says the Treadway Commission's recommendations are producing results.

"Things are moving a little faster than I would have anticipated," he adds.

For example, the SEC issued a proposal for management reports by public companies that would include management's comments on internal controls. The SEC also issued proposals that would accelerate and enhance reports when a public company changes independent public accountants.

Currently under study by the SEC are recommendations requiring every public company to establish an independent audit committee and to include in the annual report to stockholders a letter from the committee chairman describing the panel's activities.

In February, nine new "Statements on Auditing Standards" were approved by the auditing-standards board of the American Institute of Certified Public Accountants. Philip B. Chenok, president of the AICPA, says his organization "has dealt with or is currently dealing with all the recommendations that were directed to the AICPA."

The commission's five sponsoring organizations have formed a task force to inform members of the need to act on the recommendations. The organizations are the AICPA, the Financial Executives Institute, the Institute of Internal Auditors, the American Accounting Association and the National Association of Accountants.

The NAA's educational video, described above, urges public firms to:

- Identify and understand the factors that can lead to fraudulent financial reporting.
- Assess the risks of fraudulent financial reporting.
- Establish internal controls to assure that fraudulent financial reporting will be prevented or detected.
- Develop and enforce a written code of ethics.

(To view the videotape, contact Alfred M. King, Managing Director, National Association of Accountants, 10 Paragon Drive, Montvale, N.J. 07645-1760; 201-573-6211.)

In measuring progress on implementing the recommendations, the sponsoring organizations surveyed the CEOs of nearly 9,000 public companies.

Of those responding to the survey, 42 percent reported that their companies have written codes of corporate conduct. Of those with codes, 74 percent said their companies have procedures to monitor and enforce compliance, but only 52 percent said their codes protect employees from reprisal if they allege fraudulent financial reporting.

The responses also showed that only 15 percent of companies with fewer than 100 employees said they have a written code of ethics, while 87 percent of those with more than 10,000 employees said they have such a code.

"That fact is a significant concern," says J. Michael Cook, chairman of the Committee of Sponsoring Organizations of the Treadway Commission. "Being small does not excuse a public company from following appropriate controls."

Cook says it is important "for corporate managements to initiate a self-assessment of their companies' policies and practices and to take the actions that are indicated by the results of that self-assessment. Only in that way will the private sector be able to demonstrate to the public its commitment to provide reliable and useful financial information." NB

Making Trade Freer, Fairer

The new trade law promises U.S. exporters less hassle and more foreign markets for American goods, services and investments.

By Steven Golob



PHOTO: MARY ELLEN MARK—ARCHIVES



PHOTO: TOSHI MATSUMOTO—SYGMA

More American wood and wood products may be headed for overseas markets as a result of the new trade law. Photo at right shows U.S. lumber being unloaded in Tokyo.

Late in the evening of August 3, Lloyd Bentsen, the Senate's floor manager for the 1988 trade bill, stood to answer criticism that America's trading partners were complaining about the bill's broad retaliatory provisions.

"We are tired of responding case by case to unfair trade," Bentsen said. "This bill will go after the systemic practices and do something about them. Is it any wonder that some of these countries are nervous about an American trade policy like this?"

The words were among Bentsen's last before the bill received final congressional passage later that night. But, as Bentsen made clear, the words weren't original with him. He was quoting U.S. Chamber of Commerce Vice President William T. Archey, chief Chamber lobbyist for the bill and among the most knowledgeable of the unusually large coalition of U.S. business and labor leaders who backed the measure.

The opposition came mainly from abroad. In Switzerland, for example, in the office of Swiss Trade Ambassador David de Pury, *Nation's Business* four months ago heard the complaints of a trading partner firsthand. "This is a dangerous bill. If it becomes law, it will be a dangerous law."

Nation's Business later sought a response from De Pury's American counterpart, U.S. Trade Representative Clayton Yeutter. "David's excellent, but that's nonsense," Yeutter said.

Yeutter says our trading partners have nothing to fear—as long as they don't violate trade agreements or engage in unfair practices. And if they do, the new trade law only "confirms what the United States has been doing. It's not going to change anything in terms of the real world."

Nevertheless, as De Pury and others abroad see it, the danger is that the law provides for the United States to determine unilaterally whether an agreement has been broken or a trade practice is unfair. And they believe that if the United States finds against a foreign company's practices or a country's system, the law limits the President's discretion not to retaliate. However, the law's supporters reject such interpretation. "One of the big surprises to come out of this bill," says Archey, "is that most of the President's discretion has been retained."

The law addresses Congress's concern over the performance of the General Agreement on Tariffs and Trade (GATT) as a sort of world court of commerce.

Despite four rounds of GATT talks since 1960, with each round two to five years long, the 96-country international body is still a long way from providing a fair and efficient forum for settling trade disputes. For instance, although its track record has recently improved, the GATT usually takes several years to rule in a trade dispute, and even then its rulings often are subverted or simply ignored. Also, the GATT doesn't cover the growing international trade in services or foreign investments.

"With this new law," explains Archey, "Congress is sending a message to our trading partners that if they can't be more expeditious in the GATT in settling disputes, we will take direct action."

The primary thrust of the new act is opening of foreign markets for U.S. companies. The act sets up mechanisms in the executive branch to accomplish this goal. Chamber President Richard L. Lesher says that strategy already is working. Speaking last August, Lesher said that while the measure was being debated during the previous 12 months, "We've seen more opening up of markets than in the past 12 years. It is our hope that the law will continue the process of opening up markets rather than closing them down."

Contrary to conventional wisdom, the law is not protectionist and contains no new barriers to the U.S. market. In fact, it removes several old barriers and gives the President authority to bargain away others. However, if other countries persist in maintaining barriers, the President is authorized to limit imports as a lever to opening these markets.

Following is a summary of the key provisions of the 1,128-page Omnibus Trade and Competitiveness Act of 1988, which President Reagan signed into law in August. The law emerged from negotiations by more than 200 members of a joint congressional committee and

Making Trade Freer, Fairer

Repeal of the windfall-profits tax on domestically produced oil is one of many provisions in America's sweeping new trade law.

thousands of pages of proposals that followed from 3½ years of congressional activity.

Import Relief

- Requires an industry damaged by imports to demonstrate that it can recover and become competitive if given short-term government relief. Previously, an industry only had to show serious injury.
- Encourages U.S. companies to make "positive adjustment" to foreign competition in order to receive import relief.

Import-Relief Deadlines

- Speeds up import relief by requiring the U.S. International Trade Commission (ITC) to determine within 120 days whether an industry petitioning for relief has been harmed; requiring the ITC to recommend remedies, and to report to the President within six months of receiving a petition; requiring the President to act within 60 days of receiving an ITC report. The relief can last up to eight years.
- Authorizes provisional relief within 127 days after a filing if the ITC makes a preliminary finding of injury and if critical circumstances exist. The relief can be even faster in cases involving perishable agricultural products.

Unfair Trade

- Requires the administration to take retaliatory action against countries that violate trade agreements or engage in other "unjustifiable" foreign-trade practices. Exceptions are allowed if there is a GATT ruling that the foreign practice does not violate U.S. rights, if the foreign government agrees to provide compensatory trade benefits, if the U.S. action would harm the U.S. economy "substantially out of proportion" to the action's benefits or if the U.S. action would hurt U.S. national security.



PHOTO: MARK GODFREY—ARCHIVE

- Requires the President, if he chooses to exercise any of the above exceptions, to explain his reasons to Congress.
- Allows the administration to take retaliatory action against countries where there is "export targeting," where "systematic anticompetitive activities" by private firms resulting in the exclusion of U.S. products are tolerated, or where certain workers' rights are denied. The workers' rights provision is likely to be used by U.S. unions to file unfair-trade-practice actions against Taiwan and South Korea.
- Sets tighter deadlines for the U.S. trade representative to determine whether a trade agreement has been broken or a trade practice is unfair.

Steel Imports

- Authorizes restraints on steel imports from countries not covered by existing Voluntary Restraint Agreements (VRAs) if the steel was made in a VRA country and then shipped to a non-VRA country to circumvent the agreement.

Government Procurement

- Requires the President to identify countries that discriminate against U.S. firms in their government procurement practices. If the countries don't come around in negotiations, companies from those countries could be barred from selling to the U.S. government.

Telecommunications Access

- Requires the office of the U.S. trade representative to investigate

Read More About It

The U.S. Chamber of Commerce's definitive guide to the ins and outs of the Omnibus Trade and Competitiveness Act of 1988 details key components of the trade legislation. It also contains graphs, illustrations and a glossary of trade terminology.

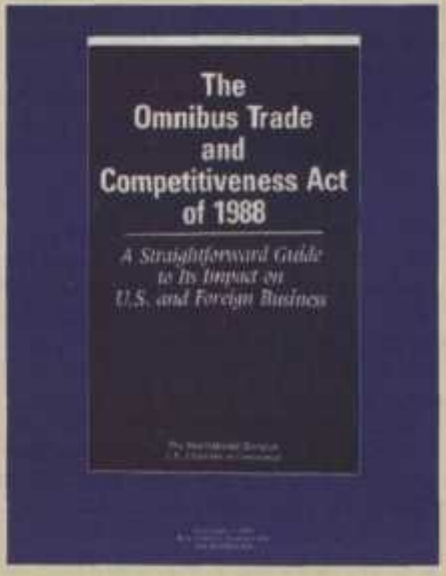
The 66-page guide is targeted at business executives rather than their general counsels.

It dispels common myths about the new law and assesses its potential impact on U.S. and foreign businesses. In straightforward language it speaks to those who are interested in increasing exports, competing in U.S. markets and understanding trade policy.

The guide is part of a Chamber educational program on the new trade measure; the program will include a videotape available in the fall as well as seminars to be presented in the United States and abroad.

The new publication is available for $30 to Chamber members, or $40 to nonmembers. (Include $1 for postage and handling.)

For a copy of the new guide, write to the International Division, U.S. Chamber of Commerce, 1615 H Street, N.W., Washington, D.C. 20062, or call (202) 463-5460.



whether certain countries, mainly Japan and West Germany, effectively deny their telecommunications markets to U.S. makers of telecommunications equipment.

● Requires, with some exceptions, that the President take certain retaliatory actions if these concerns are not resolved satisfactorily.

Intellectual Property

● One of the most prominent parts of the new statute is increased protection against infringement abroad of U.S. intellectual property—the intangible products of research, innovation, creativity and commercial reputation.

This provision directs the President to initiate expedited unfair-trade actions. A recent International Trade Commission study determined that U.S. companies lose more than $40 billion a year in sales due to inadequate protection of patents, copyrights, trademarks, trade secrets and semiconductor technology.

● Establishes a new standard under which a petitioner must prove only patent infringement to halt imports. Previously, proof of economic injury was required.

Securities Dealers

● Prohibits the Federal Reserve from dealing in government securities directly with foreign-owned firms unless the firm's home country allows U.S.-owned securities dealers equal access to that country's securities. Aimed primarily at Japan, the provision affects that country's big three dealers: Nomura Securities, Nikko Securities and Daiwa Securities.

Toshiba And Kongsberg

● Bans for three years U.S. government purchases from Toshiba Corporation and Kongsberg Vaapenfabrikk of Norway because subsidiaries of those firms illegally sold militarily significant technology to the Soviet Union. The subsidiaries are banned from making any sales in the United States for three years. Exceptions to the bans include the fulfillment of previously signed contracts and products needed for national security.

Export Controls

● Eliminates nearly all controls on exports to NATO countries and Japan and somewhat reduces controls to other non-Soviet-bloc countries. Also eliminates or reduces many re-export controls, which are aimed at preventing controlled goods from being shipped to unauthorized destinations by way of third countries. The National Academy of Sciences estimates U.S. companies have lost more than $9 billion a year in export sales to non-Soviet-bloc countries because of unnecessary and ineffective export controls.

The export-controls provision, the Commerce Department estimates, reduces the need for export licenses by 25,000 to 35,000 per year.

● Eases controls on low-technology exports to Soviet-bloc countries.

Export Promotion

● Creates a 12-member Competitiveness Policy Council to evaluate U.S. government policy as it affects the competitiveness of U.S. exports, to recommend changes in policy and to advise on private-sector requests for government assistance.

Export Financing

● Raises the overall loan-guarantee ceiling for private companies seeking to do business in developing countries to $1 billion from $750 million.

Takeover Protection

● Permits the President to block a foreign takeover of a U.S. company if he provides detailed evidence that national security would be threatened by the takeover.

Agriculture Programs

● Increases to $2.5 billion from $1.5 billion the value of U.S. government-owned surplus commodities that may be used as bonuses to induce foreigners to buy U.S. crops.

● Requires the President to implement a new federal price-support program for wheat, feed grains and soybeans in 1990 if he cannot certify that the current GATT round of talks, scheduled to end then, has produced significant progress toward reducing agricultural subsidies.

Wood Exports

● Adds wood and wood products to



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Making Trade Freer, Fairer

U.S. Trade Representative Clayton Yeutter, left, and William T. Archey, U.S. Chamber vice president and chief lobbyist for the trade bill, discuss their legislative victory.



PHOTO: T. MICHAEL KEZA

the agricultural products eligible for U.S. export subsidies.

Payoffs Abroad

- Clarifies enforcement of the Foreign Corrupt Practices Act on corporate executives. Under the old standard, corporate executives were liable for punishment if they had "reason to know" their employees were bribing foreign officials. Under the new law, an executive must have specific knowledge of the bribery.
- Defines as legal "facilitating payments" (some call it grease money) for routine government actions such as stamping documents and for performance in other areas where such payments are common, e.g., the loading and unloading of cargo.

U.S. Tariff Cuts

- Reduces or eliminates U.S. duties on dozens of products for which there are no U.S. sources.

Negotiating Authority

- Renews the expired authorization for the United States to participate in the General Agreement on Tariffs and Trade's current Uruguay Round, expected to conclude in 1990. If an agreement is reached, Congress will consider it under a "fast-track" procedure, which prohibits amendments and filibustering.
- Allows the administration to negotiate cuts of up to 50 percent in tariffs during the Uruguay Round, except for U.S. tariffs of 5 percent or less that the administration is authorized to negotiate out of existence.

Ethanol Imports

- Allows more duty-free ethanol from the Caribbean into the United States.

U.S. Worker Assistance

- Authorizes $980 million in fiscal 1989 to train workers who lose their jobs for various economic reasons, many having nothing to do with trade.
- Authorizes a demonstration program of supplemental payments to eligible workers who take new jobs that pay less than their former jobs in an import-damaged industry.

Windfall-Profits Tax

- Repeals the 1980 tax on the higher profits that were expected to result from the repeal that year of price controls on domestically produced oil. The repeal won't result in any lost revenue for the government because oil prices are currently below the level at which companies have to pay anything.

Harmonized Tariffs

- Approves a worldwide classification system that sets international standards for identifying and measuring items subject to tariff. Other trading countries adopted the system last January.

Trade Data

- Establishes, as part of the Commerce Department's trade data bank, an export-promotion data system to provide U.S. exporters with more timely and accurate data on business opportunities overseas.

Third-World Debt

- Directs the Treasury Department to open talks with other countries on the feasibility of creating an international institution to buy at a discount problem loans made to the Third World and then to renegotiate those loans on terms more favorable to the borrowing country. The provision allows Treasury to skip the talks if it concludes that they may result in reducing the value of the debt, disrupting debt service or causing defaults. Treasury objects to the talks for those very reasons, so talks are unlikely.

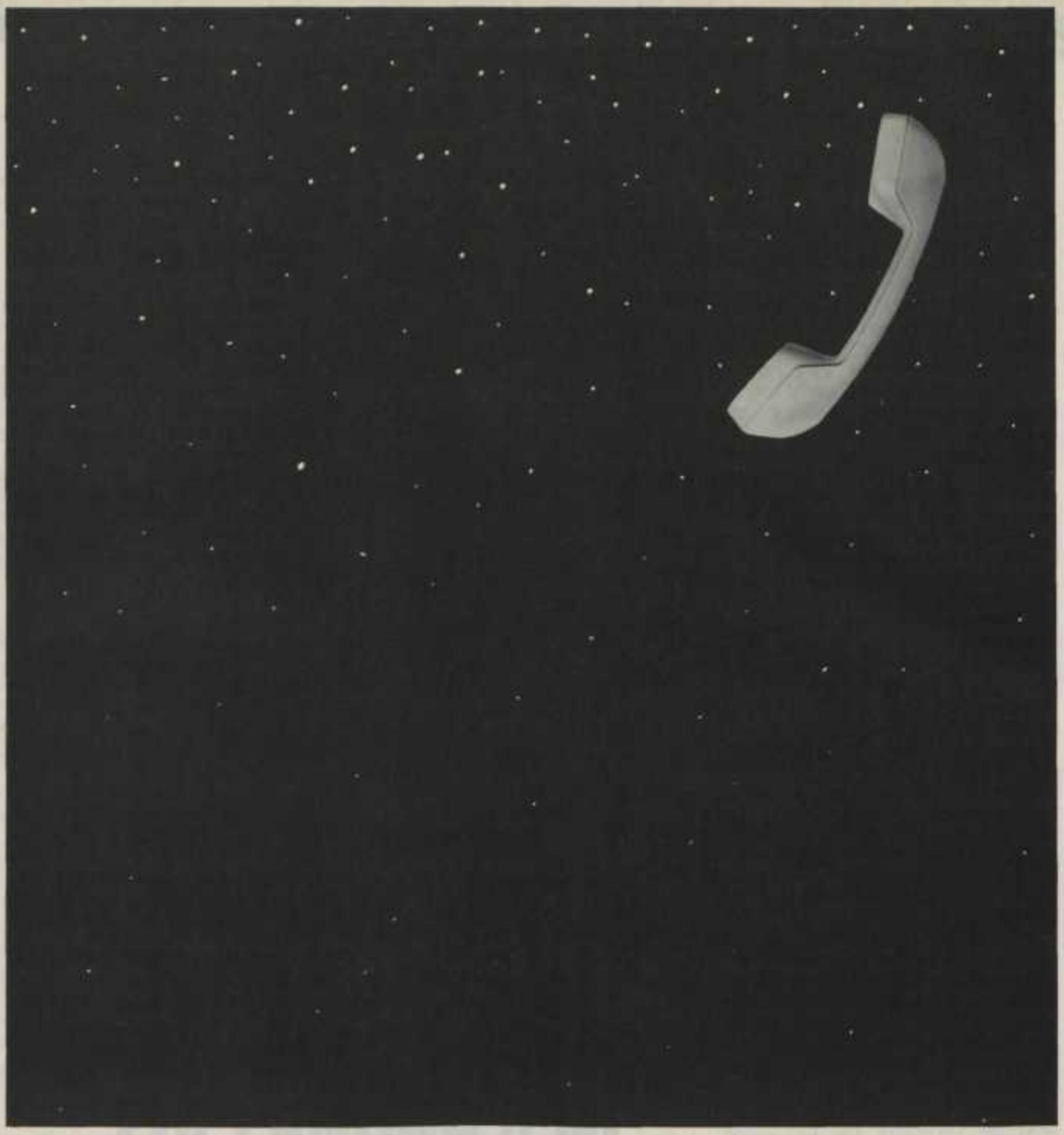
Exchange Rates

- Provides a legal mandate for the current U.S. practice of coordinating economic policies and exchange-rate strategies with other major countries. ■

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Chile



By Joaquin Lavin



PHOTO: LUIS VILLOTA—THE STOCK MARKET



PHOTO: ROBERT FRENCH—WOODFIN CAMP

Chile is a land of contrasts. Towering mountains frame picturesque lakes. And skyscrapers share city blocks with centuries-old buildings in Santiago, Chile's capital.

Chile is the world's "best kept secret," assert many foreigners who visit this Latin American nation. And, in many senses, they're correct. For example, very few outsiders know that this small country, with only 12 million people, is undergoing a deep economic transformation, called the "silent revolution."

An increasing number of investors—from the United States, Australia, New Zealand and elsewhere—are coming to Santiago, the nation's capital, with business proposals in hand. These and other foreigners are continuing their journey to the country's various regions, to explore business ventures in the nation's highly competitive fruit, fishing and forestry industries.

Chile's economic transformation is a consequence of many factors, the most important of which is adoption, in 1975, of a policy of world integration. This policy eliminated many trade barriers and expanded Chileans' horizons. And while this policy was being adopted, the government was encouraging private initiative, creativity, innovation, confidence and entrepreneurial capacity.

This mix of policy and business climate has been explosive. In a little more than a decade, Chile has changed from a closed country to a nation intent on foreign trade. A high rate of inflation and exaggerated market intervention by government have given way to a free-market economy, open to the outside world, with private enterprise the most important component of the nation's growth.

Like most Latin American countries, Chile sought in the 1940s to develop an "inward economy." This strategy called for development of the country's own industries, with protection afforded to those domestic industries from foreign competition through high import tariffs and low rates of exchange. But this strategy gave rise to a massive bureaucracy and large budget deficits. In turn, the deficits resulted in high rates of inflation, which peaked in 1973 at 1,000 percent.

Beginning that year, a group of free-market economists ascended to influential positions in the Chilean government. This economic team, favored by President Augusto Pinochet, began to change the socialist system under which Chile had been operating.

The private sector began getting top priority as a developing force, while the government's size began decreasing as a result of privatization. Price controls were removed, and tariffs were reduced to 19 percent, thus opening Chile's borders to foreign goods and services. Financial markets were liberalized, and the exchange rate was increased to promote exports.

Also, the country's tax code was reformed. Social Security pension funds were put under management of private enterprises, which now invest these funds in capital markets. Labor reforms were put in place, resulting, among other things, in large operating-cost reductions.

The economic transformation was not altogether a smooth one. It was complicated substantially by a 1975 oil crisis and, at the beginning of the 1980s, a fall in the price of copper, which is Chile's largest export commodity. Also complicating the move were increases in international interest rates and the sudden end of external-bank financing.

The nation's economic-recovery period gave way to the current era of economic prosperity, at the beginning of 1985, when Hernán Büchi was appointed Secretary of Finance. Büchi, a young engineer, was able to negotiate a landmark agreement with the World Bank.

The objective of the agreement, known as the "Programme for Structural Adjustment," was massive reform of the country's productive structures, in order to give top priority to potential exporting industries—farming, forestry, cellulose produc-

Joaquin Lavin is a leading Chilean journalist and author.

C H I L E



tion, fishing and mining. This agreement sought 6 percent yearly increases in exports during 1986-90.

Progress has been significant. For example, 1988 will be the fifth consecutive year of continuous economic growth. And unemployment has declined from levels above 20 percent during the years of recession, to about 9 percent today.

It is important to note that, during recent years, the Chilean economy could not have rebounded as it has without a strong inflow of foreign capital. Money is streaming into the country now, attracted by favorable economic conditions, clearly established regulations and a new system for capitalizing foreign-debt bonds, which has reduced Chile's gross foreign debt by more than $4 billion (U.S.).

Under this system, it is possible to convert a liability into a direct investment. Those interested can purchase Chile's foreign-debt bonds in foreign markets and use them as investment instruments through the Banco Central de Chile. This system is beneficial to the investor and to the country, since it enables Chile to amortize its foreign debt without paying for it.

Freedom to set prices and increased foreign trade have transformed the fruit, forestry and fishing sectors of the Chilean economy into driving forces behind economic development.

For example, during 1973-86, fruit exports increased twenty-fivefold, boosting Chile into the world lead as a producer of grapes, nectarines, apples and pears. Grapes are the country's third-largest export commodity, and, as with other fruits, the competitive advantage of Chilean grapes is clear: Chile's position in the Southern Hemisphere permits growing there during those months when Northern Hemisphere countries such as the United States, the world's largest buyer, are unable to produce enough of their own fruit.

The geographic length of Chile results in greatly varied weather and temperature within its borders. Grapes in Copiapó, a town located 800 kilometers north of Santiago, ripen months later than those grown in Chillán, 400 kilometers south of Santiago. In all, Chile is the only country able to supply world markets with grapes from the end of November to April.

In the case of woods, Chile's competitive advantage arises from the fact that the *pinus radiata*, soft lumber in great demand all over the world, grows twice as fast in Chile as it does in the United States, Canada, Sweden or Norway.

Because conversion to a market economy has caused reallocation of resources among regions of the country, Chile's geoeconomics have changed substantially in recent years. Land prices in cities such as Copiapó, with its early grape harvests, have increased to the most expensive in Chile. Similarly, prices have increased dramatically in Puerto Montt, thanks to its salmon-fishing industry, and in Concepción, with its thriving fishing and forestry industries. During the 1960s, under the so-called "Andean Pact," Chile considered

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integrating its economy with the economies of Peru and Bolivia, with the aim of producing products for the Colombian and Ecuadoran markets. Today, Chile is far more interested in involving itself, through entrepreneurial and technological exchanges, with countries such as Australia and New Zealand, which have climates and geographies similar to those of Chile.

For example, Chilean companies have cooperated with New Zealand businesses in an attempt to challenge together the world markets for forestry products, fruit, and products of the sea. During the past year, a large number of shares of COPEC were acquired by the Carter Holt Harvey group, some of the Anagra was purchased by the New Zealand Dairy Board and shares of Papeles Bio Bio were bought by Fletcher Challenge.

Similar activities are under way with Australian enterprises, which are interested in Chile's mining, telecommunication and air-transport industries.

Such associations provide Chile with

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C H I L E

new technologies. For example, Chile's forestry sector now can produce white wood containing no knots, and Chilean fishermen can fish far deeper than before.

An economic system that respects private property has increased the profit-earning potential of private enterprises, which now export ice-cream sticks, kiwifruits, toys, arms, books, software and more.

In 1971, 412 products were exported to 58 different countries. Now, 1,343 products are exported to 112 countries. This year, exports will total $7 billion (U.S.).

This export boom has created entire support industries, which add value to each raw material. For example, fruit has spawned the preserve industry, fish the freezing industry, and wood the cellulose and furniture industries.

The excellence of Chile's "human capital" is contributing to the country's leading economic position in the hemisphere. Chilean multinational companies are now "invading" the markets of neighbors such as Argentina and Peru. This climate of incentive has improved the image of entrepreneurs, especially among youth. So have the government's policies of privatization of companies and of increasing the numbers of owners of firms. State enterprises that had stagnated under governments with socialistic tendencies and other state-owned enterprises that ended up in the hands of creditor banks during the recession of 1982-83 are now in private hands. Compañía de Acero del Pacífico, Chilectra, Soquimich and other state enterprises are just a few of these firms.

The excellence of Chile's present economic situation bodes well for the nation's future—provided current policies are continued.

In fact, a large number of new projects have materialized lately. For example, the world's most modern methanol plant was established recently in Punta Arenas, a city situated in the southern region of the territory.

The plant required an initial investment of $300 million (U.S.), obtained from four individuals—two of them foreign, the other two domestic. This new plant vaults Chile into sixth place in world methanol production. The plant will increase foreign-exchange revenues $150 million (U.S.) a year, starting in 1989.

Among the largest of the new projects is a copper mine called "La Escondidad." Situated in the country's northern region, in an area near Antofagasta, the mine started with an investment of up to $1.1 billion (U.S.). This project alone will increase foreign-exchange revenues more than 20 percent within the next few years.

In 1987, foreign capital investment in Chile increased 400 percent to its highest level in history. This year, investment is expected to increase by an even greater percentage.

If the same clear and solid regulations continue in force, within an integrated world market economy, projects such as the new methanol plant and La Escondidad should transform Chile into a developed nation by the beginning of the 21st century. NB

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Between the years 1830 and 1914 Chile was the leading country dealing in nitrate transactions in international markets and is currently recuperating positions that formerly made it be acknowledged as the world's first supplier of fertilizers. Active participation by **SOQUIMICH** in this field has achieved concrete results: profits in 1987 reached 35.6 million US dollars and the Company stock showed a gain of 28.28 US$ cents. These objectives are being surpassed at present. The mentioned sucess is not only due to the Company's expert management of this enterprise, but is especially the result of its worker's efforts, who now own 17 per cent of **SOQUIMICH** stock holdings.

SOQUIMICH produces nitrate of different characteristics, including industrial and refined material, besides its output of potassic nitrate; potassium nitrate, and iodine. Projects in progress introduce a new and promising impulse with the recent restoration of its old Puelma Plant that is estimated to produce 150 tons of iodine anually by recycling processes of tailings and waste deposits; also the future starting up of operations in Piscis and Nebraska Plants that will render 200 million tons of nitrate, signifying guaranteed profitable operation for a minimun period of 30 years. At the same time, works are extended to Maria Elena and Pedro de Valdivia Plants where modern technology and methods are in practice.

SOQUIMICH has the support of an international network consisting of the following branch offices for its overseas trade: Nitrate Sales International (N.S.I.) located in Antwerp and attending business for markets in Europe, Africa, Asia (except China and Japan that deal directly with main offices in Chile) and Oceanic countries; Chilean Nitrate Corporation (C.N.C.) in the port of Norfolk, Virginia for operations with other points on the south-east coast of U.S.A., supplying requirements of American, Canadian and Mexican markets; and, finally Nitratos Naturais do Chile (N.N.C.) that covers Brazilian markets.

Agricultural requirements of the world show an increasingly urgent demand for natural fertilizers such as **SOQUIMICH** is offering. For example, Chilean nitrate is indispensable in obtaining an increment of sacharose contents in sugar-beet; the action of boron is stregthened in organic tissue of plants and also improves pollination, quality and texture of fruit. The application of Chilean nitrate in sugar-beet and tobacco plantations, in fruit and vegetable cultivation and in winter wheat crops has been highly appreciated by the three countries of North America; three countries in Central America; nine countries in South America; twelve in Africa, five in the Middle East, twelve in Asia and in two Oceanic countries. All of which is observed to advance at an increasing pace of development.

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Look For Leaders On The Job

Increased competitiveness in the economy has made it necessary for your company to develop the leadership it needs to survive.

By Sharon Nelton



Prof. John Kotter of the Harvard Business School says smaller companies can be ideal places to establish and maintain effective business leadership.

PHOTO: RICK FRIEDMAN—BLACK STAR

When it comes to building leadership, smaller companies have some advantages that large companies don't possess. Yet few companies, no matter what their size or advantages, are adequately developing the leadership that will assure their futures.

Important shifts in the business environment make leadership a more critical need than ever, John P. Kotter writes in his new book, *The Leadership Factor* (The Free Press, $19.95). Leadership is no longer the province of the chief executive officer or a few top managers, he contends, "but is increasingly needed in virtually all managerial jobs."

Kotter, a professor of organizational behavior at the Harvard Business School, has been looking at leadership for a long time. His two previous books on the subject are *The General Managers* and *Power and Influence*, also published by The Free Press.

"It's a different world than it was 15 years ago, a completely different world," Kotter says, citing such changes as new technology, deregulation and intensified competition.

Kotter defines leadership as "the process of moving a group (or groups) of people in some direction through (mostly) noncoercive means." Good leadership, he adds, moves people in a direction that is in their long-term best interests. "It does not march people off a cliff. It does not waste their scarce resources."

Small businesses typically don't produce either good managers or good leaders. "They've got one person who is the strong figure who founded it or who is second-generation family, and the troops underneath aren't particularly good at managing or leading," he says. "That's fine in a relatively benign environment where you've got a lot of market share and not much competition. That's not fine in the kind of business environments a lot of companies are in today."

We are in a state of economic warfare, he says, and during war, you need not just managers but leaders. "No one has yet found how to administer or manage people into battle," he writes.

Developing leaders need not be any more expensive than just the daily running of your business, says Kotter. But it must be a deliberate process that is part of your corporate culture. Kotter studied what some corporations do to create above-average leadership and came up with what he calls "best practices." Among them:

- A sophisticated recruiting effort driven by line management. Human-resource professionals aid but do not run the process. Some firms target certain colleges and universities as good sources of future leadership and treat those schools as they would customers.
- An attractive work environment. "Lack of politics" was the most common answer employees gave when asked what made a work environment fun. "By that, people typically mean the environment is friendly ... They also mean that results are what count, not covert alliances or form."
- Early identification of people with leadership potential. Good firms go out of their way to make young employees and people at lower levels visible to senior management. They also look for assignments that will help promising leaders develop their potential.

Smaller companies, Kotter told *Nation's Business*, have advantages in that "they tend not to be encumbered by bureaucracy, a lot of levels or narrow jobs." This means top management can more easily spot young people with potential.

If your company is young as well as small, you have a special advantage: It will be easier for you to build leadership development into your corporate culture because your culture is still malleable.

And when it comes to incorporating leadership development into your ongoing way of doing business, Kotter says, "The earlier the better." NB

Smile When You Answer That

What you say and how you say it when you answer your business phone can leave a lasting impression.

By Sylvia Blishak

Answering the telephone may be so routine for you that you seldom give it a second thought. Yet that simple task can be a pivotal activity in your business day.

The way you sound may determine whether you make a sale, or how a caller regards you or your company, or whether the caller leaves a message.

To discover your unique telephone personality, it is important that you try to hear yourself as your callers do. Remember that the way you think you sound may be quite different from how others hear you over the phone.

Start by tape-recording your side of incoming business calls, and play back the tapes when you're alone and can analyze your telephone personality.

I did this myself recently and was surprised by what I heard. I said "mum hum" repeatedly, cleared my throat a lot and trailed off to a mumble at the end of some sentences. Yet I sounded positive and controlled, even during a conversation that upset me.

Give yourself credit for your skills and assess the areas in which you would like to improve. Take notes, listing both your strengths and your weaknesses. Pay attention to these specific techniques:

Your greeting. When you pick up the phone, do you announce your company name first? Is it enunciated so that it is easily understood? If not, use your recorder to practice. Try adding pauses or using a different inflection for clarity.

Your name. Do you give your name after identifying your company? You'll probably be treated with more respect if you use both your first and last names. A first name alone—"This is Sylvia"—sounds casual, informal; a last name only, such as "Mrs. Blishak," may sound too formal and distant, or even curt if it's announced without a courtesy title, as in "Blishak."

Repetitive fillers. Almost all of us use meaningless sounds or phrases that serve primarily to fill space. "Uh" and "you know" are common repetitive fillers, as is a nervous laugh. Your recorder will make yours obvious immediately. Try to understand any purpose your fillers may serve. Are you stalling until you think of the right words? If so, a silent pause may be more effective.



ILLUSTRATION: WILLIAM COULTER

Pitch. Is your voice too high? A lower pitch sounds more professional.

Emotional overtones. Are you projecting the emotional overtones you would like? Or does your voice project impatience, or a sense of being rushed or irritation at being interrupted? These sentiments can show up in your voice with negative results, while a relaxed and happy tone says you're pleased to do business with your caller. One telephone salesman used to keep a mirror on his desk and smile at his reflection as he picked up the phone. The smile came through to the callers, giving them a positive impression of the salesman and the company.

Tonal variety. Is your voice too flat or boring? Or are your tones too exaggerated, like those of an announcer on a TV commercial? Strive for an interesting middle ground to let your caller know you're interested in the call.

Enunciation. Do you pronounce words clearly and with enough pauses so that you can be understood, or do your spoken words run together? Do you swallow the ends of words or trail off at the ends of sentences?

Volume. If your voice is too loud, you may sound aggressive; if it is too soft, you may sound timid or powerless.

Pace. If you talk too quickly, you'll sound nervous or rushed. If you talk too slowly, you may come across as uncertain or inexpert.

Negative phrases. If you use expressions containing words such as "no" and "not," try to replace the phrases with more positive ones. For example, "No, he's not available now" might be restated as "He's with a client now."

If you have noted anything you would like to change about your telephone manner, practice it on your tape recorder, and keep practicing until you're satisfied with what you hear.

Then try the changes at work. Don't chide yourself if you start falling into your old phone habits. The first step toward change is awareness that you're making mistakes. When you think, "Oh, no, I've done it again," you're making progress. Next time, you may catch yourself in time.

It could take about three weeks of practice to make new habits come naturally. Use your recorder to check yourself on the job once a week and note your improvement. At the end of the third week, you should notice that you have a more positive telephone personality. NB

Free-lance writer Sylvia Blishak, based in Menlo Park, Calif., specializes in topics of small-business management.

To order reprints of this article, see page 90.

Is A Franchise In Your Future?

Franchising requires thorough research, asking the right questions, seeking smart advice and being honest with yourself.



PHOTO: PAL HUNTER INSET: LES MOORE—UNPHOTO

Success: A Long-Term Proposition

By Roland Addison

Like a lot of people, I've always wanted to own my own business. And, like a lot of entrepreneurs, I've survived a business failure.

Ten years ago I bought a publishing-company franchise. I thought my decades of experience selling capital equipment for the health-care and railroad industries would sustain me in business, but I was too undercapitalized and inexperienced to survive. And I didn't get the support I needed from the franchisor.

Still, I never gave up that dream of business ownership. I knew I had the right instincts to run a successful company, but I also knew that I needed guidance on some aspects of business.

When I went to a franchise trade show in 1985, I thought I'd try again. Learning from my experience, I was sure that with the right franchise I could run my own show and let someone with more experience steer me away from the pitfalls.

I decided to buy a franchise from Spring Crest Drapery Centers, based in Brea, Calif. It seemed like a good match for me. I could run the operation with very few employees. It would make good use of my experience selling capital goods. And the financial investment was within my price range: about $60,000 to get the store up and running.

Most people think business is easy. It's not—and neither is franchising. It takes a lot of hard work, a lot of mental anguish and a lot of hours. The franchisor's training program is intense, too. I got to a point where my mind could only absorb so much training. And, naturally, what my mind didn't absorb later caused me to make a few costly mistakes in my store.

It took time for me to build a lucra-

tive operation. In my first two years or so, my wife had to take care of all our household expenses from her income as a nurse.

In 1986 my sales were the second-highest in Spring Crest's 300-franchise system, but my advertising expenses were so high that I didn't make a profit. Last year, my sales dropped because I cut back on advertising, but I broke even. This year my sales are comparable to last year's, and I'm making a profit. Success is not a short-term proposition, but it's coming.

The best part about being a franchisee is the support of the franchisor's staff and other franchisees to help you survive your mistakes.

When I give prospective franchisees advice, I tell them to stay in their lines of expertise. Mine was capital sales, so draperies made sense for me. If you know about a certain product, try to find a franchise for it.

I also tell people to investigate thoroughly the franchise they're thinking of buying. I can't emphasize enough how important it is to talk with other franchisees. Some franchisors want you to believe that owning a franchise is easier than it actually is. But if you talk with their franchisees, you may find out that they're not getting all the support services they thought they'd be getting.

Speaking from experience, though, I think franchising is a better way to go than starting on your own. But it's not for everybody. You have to be willing to follow the franchisor's system—sometimes to the letter.

The point of franchising is that you don't have to bother with the trial and error of starting a business. The franchisor has already done that for you. You just have to be willing to follow the franchisor's advice and to build on it.

Roland Addison is a Spring Crest Drapery Center franchisee in Riverside, Calif.

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Do Your Franchise Homework

"I went into the wrong business when I bought my franchise," says Aaron Shingler, a former 7-Eleven franchisee. "That was not the franchisor's fault," he adds. "It was mine because I didn't do the research necessary to make a proper investment decision."

After owning the franchise for three years, Shingler decided to sell it back to Southland Corporation, the Dallas-based franchisor. He broke even on his investment, but he found that owning a franchise is harder work than he had expected.

"If prospective franchisees think this is an easy way to make money, they're wrong," he says. "It's a lot of hard work."

Today, Shingler operates Shingler-Hollis Franchise Investment Group, Ltd., in Lanham, Md., with Barbara Hollis, who has a background in small-business development. "Our primary objective," Shingler says, "is to help franchisees not make the same mistakes that I made when deciding what type of business to go into." Their goal, he explains, is to help prospective franchisees "make more-intelligent investment decisions."

Franchise consulting is a growing business, with consultants available throughout the country to help prospective franchisees and franchisors find the best investments.

But to the prospective franchisee, the question often remains: Do I need a franchise consultant? Consultants can

Ask The Franchisor, And Ask Yourself

Before you make the commitment and buy a franchise, be sure you know your strengths and weaknesses as well as your prospective franchisor's.

Obtain answers for the following questions:

- How many years has the franchisor been in operation?
- Check the legal papers.

Is the Uniform Franchise Offering Circular thorough?

Does it describe the people in charge of the franchise—the full management team, board of directors or home management team—along with their experience? Does their experience relate to this industry? Does it relate to franchising?

- What support services will you receive in opening up for business? How long is the training program, and how often is it updated? Will you receive more training after you open? Is the operations manual clearly written? Is a field support staff available to visit and periodically assist franchisees?
- What are the franchisor's estimates of your initial and ongoing costs and expenses? Are these figures realistic in your market?

To what extent are equipment specifications and quality-control standards imposed on the products and services that are needed for operating the business? Can equipment and supplies be purchased from a source other than the franchisor? Under what conditions? Does the franchisor have a supplier program?

- What is the litigation history of the franchisor? Have disgruntled franchisees brought lawsuits, or have suits been initiated by the franchisor to protect the trademark or weed out poorly performing franchisees? Does the franchise have a recognized, protected and distinctive trade identity? Are the franchise locations uniform in appearance?
- Has the franchisor investigated you carefully enough to be sure that you can successfully and profitably operate a franchise?
- What are the terms and conditions for terminating the franchise relationship? How many franchises have been ended during the past few years? How many franchisees have failed?
- Have you talked to randomly selected franchisees about the franchisor's support services and overall business?
- Did you have the contract examined by an attorney who understands franchising, antitrust laws, trademark laws and the Federal Trade Commission Franchise Rule?
- Are you good at following instructions, or do you tend to be independent-minded?

—Meg Whittemore and Andrew J. Sherman

be helpful if they are willing to walk you through every aspect of the franchising arrangement. Still, "there's no substitute for doing the research yourself," advises Jackie Clark.

Clark is president of A Choice Nanny, a computerized service for placing nannies. The firm, based in Columbia, Md., opened in 1985 and began franchising this past spring.

Even though there are numerous books, pamphlets and seminars on buying franchises, prospective franchisees often want to cut short their research.

"I see many entrepreneurs who don't take the time to read all the good information that's out there on franchising," says Susan Kezios, president of Women In Franchising (WIF), a Chicago-based educational consulting firm. "They tell me that it's too much trouble, and they don't want to be bothered."

Kezios, a former franchise broker, tells prospective franchisees to read all the available information and closely examine the franchise's financial statements. "I always counsel people to make sure that the franchise company is not bankrupt," she says.

A prospective franchisee should also hire a good franchise attorney before deciding whether to buy a franchise. Often, an attorney will recommend a franchise consultant if one is needed,

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Former franchisee Aaron Shingler specializes in helping prospective buyers. Here he advises Florine McCready, owner of Today's Temporaries in Towson, Md.



PHOTO: TERESA ZABALA

but choose an attorney who is well-grounded in franchise law.

A good consultant and a good attorney should determine first if franchising is right for you. Drawing on his own experience, Shingler says: "I give my client an unvarnished look at what going into franchising is all about. I think the real problem is that people have unrealistic expectations about the amount of money they can make and the amount of work it actually takes to be successful."

Coleman Orr, president of Classic Care of America (CCOA), an exterior-window-washing franchise based in Alpharetta, Ga., looks for franchisees who are willing to make a total commitment to the business. "Franchisees interested in buying a CCOA franchise have similar traits," he says. "They are all hard workers, they know themselves, and they've done their homework on the business and on franchising."

Assessing your business and your personal strengths and weaknesses can be overlooked in the buying process. Yet those assessments are the most im-

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portant elements in determining the kind of business to buy and whether you are too entrepreneurial to fit into a franchise system.

Knowing your business and your personal profile may save you a lot of time and money.

By Meg Whittemore, a Washington free-lance writer specializing in franchising.

Assuring Firm Legal Footing

If you're thinking of buying a franchise, you can minimize your risks by taking a few precautions. Be sure you know your legal rights—before and after you sign the franchise agreement. Be certain you know your responsibilities. And be sure you trust your franchisor.

The Regulatory Framework. Before you sign the franchise agreement, review all legal documents with a lawyer. Pay special attention to the franchisor's disclosure document. Also known as the Uniform Franchise Offering Circular, this document is a set of comprehensive legal papers reflecting the company's business history, strategies and policies.

By law, a franchisor must provide you with the offering documents at the first personal meeting where sale of the franchise is discussed seriously and no later than 10 days before you sign the franchise agreement.

Reviewing this material with a lawyer may be time-consuming and expensive, but it is generally a wise investment. A lawyer will help ensure that the document discloses all necessary information, including procedures for terminating or renewing the relationship, mandatory quality-control standards, the fee structure and a full set of financial statements.

The Franchise Agreement. The most important element in the information package that prospective franchisees receive, this document defines the binding rights and obligations of each party to the franchise relationship.

The agreement should provide for a delicate balance of power, giving the franchisor enough control to enforce uniformity throughout the franchise system, yet at the same time providing the franchisee with enough leeway to meet local market needs.

You should discuss the following key

areas of the franchise agreement with an accountant and an attorney who are familiar with franchising:

- Fees and initial start-up costs;
- Structure of royalty and advertising payments;
- Size of exclusive territory, if any;
- Quality control and prescribed standards of operation;
- The franchisor's right of first refusal on a transfer of the franchise or lease;
- Minimum insurance requirements;
- Obligations of the franchisor before and after the grand opening (distinguish between those support services that may be generally discussed in the offering circular and those actually specified in the agreement);
- Conditions for renewal and termination of the franchise;
- Performance standards and quotas to be met by the franchisee;
- Any obligation to purchase or lease products from the franchisor or an affiliated company.

Dealing With Third-Party Problems. No matter how carefully you review the franchise offering documents, you may still encounter legal problems. Usually they are created by third parties, such as landlords, bankers, shareholders or local regulators.

For example, in 1986, would-be franchisee Randy Loeb signed a franchise agreement with the Denver-based automotive-servicing corporation Grease Monkey International, but he has yet to open his first site. He ran into problems with real-estate developers who backed out of the deal at the last minute and zoning officials who caused long and expensive delays. "You just never know what to expect in dealing with third parties," says Loeb.

Loeb is lucky that Grease Monkey evidently understands third-party delays. The company hired him to sell franchises in its Middle Atlantic region until he could open his own units in Maryland. However, not all franchisors are as sympathetic. Some franchisors state in their agreements that if a franchisee does not open a store within a specified amount of time, the relationship will be terminated.

Relations With The Franchisor. In the most successful franchisor-franchisee relationships, both parties recognize that they need each other. Franchisors depend upon franchisees for revenue and to promote them in the marketplace. Franchisees need their franchisors' proprietary systems and trademarks. And they look to the franchisors for support, assistance, advertising, research and development of products and services, and their ability to negotiate volume discounts from suppliers.

But sometimes franchisor-franchisee arrangements do not work out. A franchisee may feel that the franchisor is not meeting responsibilities, is not keeping promises. If that happens, a franchisee may have no recourse but to sue for fraud or misrepresentation.

Several disgruntled Entré Computer Centers franchisees did just that. They filed misrepresentation and fraud lawsuits against the corporation because they were not making as much profit as they felt the company had led them to expect.

Entré lost one suit, but it won on appeal. The court attributed the lack of profitability to the industry-wide slump of 1986. Other suits were settled out of

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court. The litigation hurt franchisee morale, says an Entré spokesperson.

Realizing that good feelings are important to a franchising relationship, Entré took steps to improve communication and increase profitability. It placed two franchisees on its board of directors and set up a franchisee advisory council to work with the corporate staff.

Earlier this year the company also reduced its fees from a 9 percent royalty and advertising payment to a 6 percent fee minus a rebate based on sales.

"A number of lawsuits were dropped by franchisees who saw we were making positive changes for their benefit," says the Entré spokesperson. "After all, if our franchisees aren't profitable, neither are we."

Often, franchisor-franchisee disputes can be settled without a judge and jury. Litigation or arbitration should be the last resort for a disgruntled franchisee because the cost and stress of a lawsuit can be debilitating to both parties.

As a franchisee, you can help to avoid lawsuits by learning your legal rights and responsibilities and by recognizing the importance of a good relationship with your franchisor. This knowledge will also help pave your way toward building a successful business.

By Andrew J. Sherman, an associate with the Washington law firm of Michaels & Wishner, where he works with emerging growth companies in the areas of franchising, securities and corporate law.

Where The Money Is

Once you've decided that franchising is for you—and what kind of franchise you want to buy—your biggest concern is likely to be finding suitable financing.

This is the step that prospective franchisees usually dread most. But proper planning and research into all your financing options can help make your search less intimidating.

Information on financial planning is available from publications of the Washington-based International Franchise Association, the world's largest association representing franchises. You can contact the IFA at 1350 New York Avenue, N.W., Suite 900, Washington, D.C. 20005; (202) 628-8000.

To help you start your financial planning, Hans Sohlen, assistant vice president of Minneapolis-based First Banks (which expects to do some $50 million in franchise financing this year), suggests you take the steps listed below.

- Know your net worth. Most banks and lending institutions have a printed form to assist those who want to calculate this figure.
- Determine your credit potential. Lenders look for the four C's—collateral, capital, capacity and character. Poor credit history is the primary reason for loan rejection. Be prepared to prove that you are capable of managing the business you are undertaking, that your business has the earning capacity to pay back the loan and that you have demonstrated integrity in previous business dealings.
- Develop a business plan. Include in it a resume of your business experi-

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ence, a projection of your first-year income and expenditures and a marketing plan. Some franchise chains will help you prepare a business plan.

● Determine not only what it will cost to buy the franchise but also what it will cost to survive until the business reaches a break-even point. "Be conservative in your estimate," cautions E. Jan Hartmann, CEO of the International Franchise Association. He says most new franchise stores don't begin turning a profit for 6 months to 18 months.

Joel and Anita Schlater, for instance, pledged as collateral their future business and their New Jersey home when they sought financing for a Maaco Auto Painting & Bodyworks franchise in the New York City area. They had little cushion to tide them over until the business could provide for them.

Had it not been for an inheritance, the Schlaters could have faced bleak times financially. "It took about a year to get the business under way," says Anita Schlater, "and that came not with luck but with a lot of hard work." Fortunately, the Schlaters have succeeded in building a profitable business. Their franchise ranks 11th among Maaco's 450 franchises.

Many new franchisees aren't fortunate enough to get by with such a small reserve. Franchising experts generally recommend that you plan on a cushion equivalent to at least six months' worth of total overhead expenses.

Once you have determined how much money you will need, you'll probably have to decide how much to borrow. Then the next step will be shopping for the right lender. Although finding financing is generally left up to franchisees, many franchisors are starting to offer assistance. It's one way for franchisors to build greater loyalty into the system. For example, Wicks 'N' Sticks, a Houston-based candle-making franchise, often finances the balance if prospective franchisees can come up with 25 to 30 percent of the initial $150,000 to $200,000 investment.

Check carefully all terms and conditions of franchisor-financing agreements, however. You may find better terms and fewer restrictions from a commercial lender. Some specialize in new projects under $1 million. Such

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". . . the inexpensive cost of entry, the return on investment, and the minimal hands on time required are the major features of the Cost Cutters franchise..."
— Jim Gendreau
Cost Cutters Franchisee

Jim Gendreau is an investor. He owns several Cost Cutters franchises and he is in the process of developing even more.

Jim says Cost Cutters is a relatively simple business with four main elements: marketing, advertising, location and the lease. "I merchandise our shops as hard as I can," says Jim, "and the Cost Cutters marketing material absolutely works. They keep their material fresh with new ideas every year."

Jim has been Franchisee of the Year, and says while "we run a clean and tight organization, I only have to spend one day a week for the several shops we own."

Jim adds that he has a partner, a CPA, who after reviewing Jim's worksheets wanted to join the enterprise.

Jim is also impressed by the Cost Cutters systems from training, to inspections and operating systems. "Your manager just has to follow the book; it's all in black and white from turning the lights on in the morning to switching them off at night."

Jim urges prospective Cost Cutters franchisees to "do their homework by taking advantage of Cost Cutters management expertise, researching their market and talking with other Cost Cutters franchisees.

That's one of the great aspects of a Cost Cutters franchise—we all help each other be successful," Jim concludes.

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lenders, like the Money Store Investment Corporation and ITT Small Business Finance Corporation, consider new franchisees preferred borrowers. "Because they're taught how to operate the business profitably and are given proven systems to stay on top of costs and quality, there is far less risk to lenders," says Rosemary Dente, a business-development officer in the Money Store's Union, N.J., office.

Of the $106 million in business loans that the Money Store Investment Corporation made in 1987, nearly half went to new franchisees. It will lend up to 80 percent—long-term—to cover the cost of a new franchise. In August its interest rate was 2 3/4 percentage points over prime. The Money Store does not charge an application fee, and it builds the loan amount around the borrower's actual cost to open for business. To qualify, new franchisees are expected to put down at least 20 percent toward the total cost of the franchise and to provide collateral close to the amount they want to borrow.

But before becoming involved with any private finance company, you should check its credentials with the Better Business Bureau. An experienced franchise attorney will also act as a safeguard against loan sharks, who typically reveal their true colors by demanding an unreasonable amount of collateral—or an exorbitant interest rate—in exchange for a loan. "Let common sense be your guide, and don't be shy about asking the lender for references," suggests First Banks' Assistant Vice President Sohlen.

The Small Business Administration (SBA) has helped thousands of new franchisees get started. Like the Money Store, the SBA generally looks favorably upon franchisees for loans, because less than 5 percent of them close their first year—compared with an estimated 60 percent failure rate for independent businesses. "Our track record on franchise-related loans is twice as good as for other types of businesses," says Everett Schell, director of the SBA's Office of Business Loans.

The SBA offers two basic types of business loans—guaranteed loans and direct loans. With guaranteed loans, the SBA acts as a cosigner, agreeing to pay up to 90 percent of a loan made by a private lender, usually a bank, if the borrower defaults. For a loan made by a lender other than a bank, such as a credit union, a thrift institution or a private-sector lender, the SBA will guarantee up to $500,000 of the loan amount. The SBA requires the borrower to provide one third to one half of the total assets needed to launch the new business.

For entrepreneurs unable to secure an SBA-guaranteed loan, the administration offers direct loans for up to $150,000. Before applying for one of these loans, however, prospective franchisees must have been rejected for financing by their local banks and at least one other lender in a city with a population of over 200,000.

Small Business Investment Companies (SBICs), which are licensed by the SBA, provide long-term financing and equity capital for small businesses. The SBA also can refer prospective franchi-

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sees to Business and Industrial Development Corporations (BIDCOs). These are private companies operated under state programs and backed by federal guarantees that provide long-term financing to small businesses.

Most states also operate programs that offer financial assistance to minority-group members who want to buy a franchise or otherwise start their own businesses. In Maryland, for example, the Small Business Development Financing Authority will buy up to 40 percent of the stock in a new company, and the owner can then buy out the financing authority's interest over a five-year period.

Sylvia Hill, for instance, received funding from the Maryland program to buy a Fantastic Sam's hair salon. Despite the state's presence on Hill's board of directors and the monthly finance reports Hill has to submit, "no one is interfering," she says. "But the program is ready to provide management support services if I need them."

A good source of information on various ways of financing a franchise is the International Franchise Association

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Is A Franchise In Your Future?

(IFA). Each year it sponsors "Meet The Money People," a three-day symposium in which franchisors and franchisees meet to hear presentations on various financing methods and sources. This year's conference is scheduled for October 16-18 in Chicago.

Although buying a franchise is generally a safer bet than starting a business on your own, it is usually not a get-rich-quick scheme. Most franchisees make a 15 percent to 18 percent return on their equity after the first year, say some franchise experts. Others say such returns could take as long as three years to achieve.

"Operating a franchise business can be a rewarding experience," says IFA's Hartmann, "if you plan thoroughly beforehand and recognize that it will require your total personal commitment for success."

By Jack Wynn, a Washington-based free-lance writer who specializes in franchising issues.

To order reprints of this article, see Page 90.

Shopping For Franchises

Prospective franchisees can become informed shoppers through publications and trade shows. Among them:

- *What You Need to Know When You Buy a Franchise* and *Investigate Before Investing* are the International Franchise Association's basic references for buying a franchise. For prices or for a publications list, contact the IFA at 1350 New York Avenue, N.W., Suite 900, Washington, D.C. 20005.
- *Franchise Opportunities Handbook* (Stock No. 003-009-00528-1; $16) and *Franchising in the Economy 1986-1988* (Stock No. 003-009-00525-6; $4.75) are compiled by the U.S. Commerce Department's International Trade Administration Office. To order, send a check to the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.



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Personal Management

To Your Health

By Hal Higdon

A Walk On The Mild Side

Nearly 60 million Americans are striding toward fitness. According to the President's Commission on Americans Outdoors, 64 percent of all who participate in outdoor recreation prefer walking to other forms of cardiovascular exercise.

Many experts have concluded that walking is one of the safest and most efficient forms of exercise. Walking can help people lose weight, reduce blood pressure, prevent age-related diseases, relieve back pain and headaches, tone muscles and improve concentration. Briskly walking a mile in 15 minutes burns as many calories as running the same mile in 8½ minutes—but doesn't pound the skeletal system nearly as much, according to the President's Commission on Physical Fitness.

Studies also show that regular walking prolongs life by reducing the risk of heart disease.

Says Dr. Samuel Fox, past president of the American College of Cardiology: "Walking increases our tolerance to stress and enables us to enjoy living more."

Walking can be done almost anywhere, at any age, at any time. But beginners would do best to start with 15-minute walks three times a week following this three-part routine:

- **Get the right attire.** Start with a good pair of flexible and comfortable shoes that have plenty of support around the heel. Take or wear a suitable pair to the office. Outerwear should simply be comfortable. Because walking is not a strenuous sport, your office attire will be fine if you decide to take a walk during your lunch hour.

Hal Higdon is a free-lance writer specializing in health and fitness topics. For a free copy of his 20-page color brochure on walking, send a self-addressed, stamped, business envelope to: Icy Hot Foot Steps to Fitness, Dept. NB, P.O. Box 10717, Stamford, Conn. 06904.



PHOTO: CARROLL SEGHERS—THE STOCK MARKET

You can burn as many calories by walking briskly for 15 minutes as you can by running for 8½ minutes—and good shoes are the only gear you need.

- **Get psyched.** Your enthusiasm will be higher—and your results better—if you have a goal in mind for your walking, whether to lose a few pounds, tone up or simply get some fresh air.
- **Get loose.** Whether you walk for pleasure or to get in shape, proper stretching and self-massage techniques are as important as the walk itself.

To avoid having to warm up in business clothes, do your stretching before work on the days you plan to walk. Simple stretching techniques include reaching up, reaching down, rotating and pulling.

Stand with your feet slightly apart and reach up. Next, spread your feet further apart and reach down. Then rotate your torso with your arms placed on your hips. Finally, hold some stationary object for support, grab the instep of your foot with the opposite hand and pull the heel back against your buttocks. Always stretch with slow, steady movements.

Massage is an ancient method of warming and relaxing muscles before you train and helping them recover afterward. Self-massage can be done before work, in conjunction with stretching, or in the office, after a walk. Localized self-massage for ankles, calves, arms, neck and shoulders can be performed while sitting at your desk. Use a topical rub as a lubricant for self-massage.

Use a long, sliding action of the hands along the length of the muscle to relieve its tension and tightness. Gently knead with the thumb, fingers or hands and put pressure on the muscle. Around joints, apply a localized circular or cross-fiber movement done with the fingertips or thumbs.

Following are some useful tips that will help you incorporate a walking fitness program into your hectic schedule:

- Instead of parking your car in the closest space available, pick one that is farther away.
- Don't always use the elevator. If you get a chance, use the stairs—at least one or two flights.
- Use your lunch hour to go outside and stroll. If you order a take-out lunch, don't have it delivered. Go get it.
- If you take the bus or subway to work, get off one stop before your destination and walk the rest of the way.

Remember, if you have been diagnosed as having a health problem or if you are over 40, consult your physician before adopting this or any exercise program. **NB**

When it's time for a new car, should you buy outright, get financing or go for one of the two kinds of lease?

It's Your Money

By Paul N. Strassels



PHOTO: JOSE FERNANDEZ—WOODFIN CAMP

Driving Rich

New cars are expensive. The average price is around $12,000, and it's not difficult to find luxury cars costing $30,000 to $50,000.

How you pay for your new car will affect your bank balance for years to come. You have three options. You can pay cash. You can finance the car. Or you can lease it. The question is, which is the best deal?

The answer depends on your current financial situation, personal preferences and ability to shop for the best deal. It makes no difference if you use the car for business or personal reasons.

In almost every case, the least costly way to drive that car off the dealer's lot is to purchase it for cash, assuming you have the money available. The only exception is if you can earn a higher rate of return on your savings than you will be charged to finance the vehicle. When you pay cash, you avoid finance charges, but you deplete your savings. You also gain a valuable asset, even though it depreciates. Over a period of three to five years (the same period you finance or lease) your money could have been growing in a savings account instead of being invested in a depreciating car.

If you do not have the cash available to purchase a car, you must decide whether to finance or lease.

When financing, you make a down payment (typically 20 percent or more) either in cash or with a trade-in. Your payments are determined by the number of months you finance your purchase. A three-year loan carries a higher monthly payment than a four- or five-year loan, but the shorter term means you pay less interest in the long run.

Consider the potential resale value of the vehicle. It's best to keep a car as long as you can since most cars lose a tremendous amount of value during the first months and years they are driven. The longer you keep a car, the less it will cost you per year. It is expensive to trade every year or two. A dealer may offer only $7,000 or so for your $18,000 car on a trade two years after you purchased it.

But some people don't like driving a car that's five or six years old, no matter how good its condition. They want a brand-new car every two or three years. That's costly. If you're going to trade often, buy a model that holds its value better than most.

Leasing, the third option, makes sense especially for those who don't want to be concerned with maintaining older vehicles, who enjoy driving newer models and who don't want to part with the money for a down payment. You pay less cash up front and less each month. In other words, you can drive rich. The down side to leasing is that once the lease is up, you own nothing.

There are two types of leases: closed-end and open-end. Under a closed-end lease, you return the car at the end of the rental period and walk away. Your monthly lease payments are based on what the dealer expects the car will be worth at the end of the lease term. The longer you drive the car, the lower the car's value at the end of the lease, and the higher the total of the lease payments.

When you and a dealer enter into an open-end lease, the dealer projects what would likely be a fair purchase price for the car when the lease is up. If the car's resale value turns out to be higher than the dealer had estimated, you can get some money back; if the car is not worth as much as was expected, you will have to write a check to the leasing company. If yours is an individual, non-business lease, you cannot be charged more than three times your monthly lease payment.

Both types of leases limit the number of miles the car can be driven without extra charge, typically 15,000 to 18,000 miles a year. If you drive more, you'll be charged for each additional mile. If the car is abused, you will pay extra.

When considering a lease, get answers to these questions:

- What's the monthly payment? For how many years?
- Who pays for the insurance? It's usually the driver.
- What's the car's estimated resale value at the end of the lease? And what adjustments are made when the car is turned in?
- How many miles are allowed per year? What's the charge for extra miles?
- What's the cost for prematurely canceling the lease?
- What's the standard for measuring normal wear and tear?

As with most financial decisions, you're interested in the bottom line. When it comes to cars, you're usually better off paying cash rather than financing or leasing.

Leasing versus financing can be a tossup, but if you want more car than you might be willing to pay for, leasing may be your best bet. NB



Paul N. Strassels, president of Money Matters, Inc., Burke, Va., is a tax-law specialist and financial adviser.

For Your Tax File

Mortgage Interest: The Ground Shifts

By Gerald W. Padwe, C.P.A.

Just when you thought you were starting to understand the dramatic changes that the 1986 tax law imposed on the deductibility of home-loan interest, Congress came along late last year and changed the rules again. Although the changes actually simplified some aspects of the tax rules involving home mortgages and home-equity loans, they also put some new limitations in place.

Recently, the Internal Revenue Service issued a notice offering guidance on a few aspects of the 1987 changes. The notice is presumably a preview of positions that the IRS will take when it issues regulations in this area.

In general, the 1987 changes restricted the deduction for a principal or second residence to interest on no more than $1 million of "acquisition indebtedness," plus an additional $100,000 of home-equity loans.

"Acquisition indebtedness" is debt incurred for the purchase, construction or substantial improvement of a principal or second residence, as long as it is secured by the residence. Home-equity debt is any other loan secured by the principal or second residence.

Suppose that a mortgage loan was taken out several years ago, and that it would qualify as acquisition indebtedness except that it exceeds $1 million. No problem. Debt incurred before Oct. 13, 1987, the effective date of the new provisions, is "grandfathered" and will automatically be treated as acquisition indebtedness even though it exceeds $1 million. Until the principal balance of that loan falls below $1 million, though, no other acquisition indebtedness can be incurred.

What if you were to borrow $750,000 to finance the purchase of a new home,



Gerald W. Padwe is national director-tax practice for Touche Ross & Co. Readers should see tax and legal advisers on specific cases.



PHOTO: JERRY MESMER—FOLIO

but the loan was not secured by the home? Interest on the loan would not qualify for full deductibility but would be, instead, "personal." If you subsequently arranged to have the loan secured by your new home, you would have then met both tests (purpose of the loan and having it secured by the residence), the loan would become "acquisition indebtedness," and interest paid from the date you changed security arrangements would be deductible.

If you start construction of a home or begin a substantial improvement project without taking out a loan, but later have to borrow money to see the project through, the IRS will allow debt incurred to "relate back" to construction or improvement work undertaken up to 24 months earlier. In fact, you may take out a loan as late as 90 days after completion of the residence or improvements, for expenditures going back 24 months prior to completion of the project.

The Cost Of Moving

Moving employees from one place to another is tough on the family and tough on bank accounts. Tax laws help—to a point. Many expenses associated with a move are deductible by the moving employee, so the employer does not have to "gross up" reimbursement of those expenses to make the employee whole after taxes.

Numerous rules and restrictions apply, though, before a moving expense is deductible. Not the least of these is that, following the move, the taxpayer must remain a full-time employee, in the general location of the move, for 39 weeks of the next 12 months.

What happens, then, when an employer moves an employee from New York to San Francisco, but four months later determines that the employee is needed in Dallas to head a new division? Even though the employee did not remain in San Francisco for 39 weeks of the 12-month period following his relocation, both sets of moving expenses are deductible, since the second move was "for the benefit of the employer," and a special exception to the 39-week rule covers such circumstances.

But be careful. In a recent ruling, the IRS considered an employee who moved to a new location on January 2 to take a position with the federal government. In April, the employee applied for a vacancy in another city, resulting in a promotion. The government reimbursed the employee's moving expenses, under a provision of the law that authorizes such reimbursement when a transfer is in the best interests of the government and not primarily for the convenience or benefit of the employee.

Still, says the IRS, the employee in this situation is not entitled to a tax deduction for the expenses of the first move, in January, because the "benefit of the employer" exception to the 39-week rule does not apply. "Benefit of the employer" means beyond the control of the employee; and since the employee initiated the request for transfer, it was not beyond the employee's control. NB

Employers who want to subsidize their employees' use of public transportation have an incentive in the tax code: Up to $180 a year per employee is deductible by the employer and need not be reported in the employee's taxable income.



PHOTO: CHRIS CROSS—UNIPHOTO

Always Be Ready For An Audit

By Paul N. Strassels

In fiscal 1987, the Internal Revenue Service audited only 1 percent of all individual returns filed, down slightly from the year before. Only 1.58 percent of regular corporations were audited, down from 2.25 percent. Audits of partnerships and subchapter S corporations were up slightly.

What those statistics don't tell you is that *every* return is checked for mathematical accuracy, for dozens of errors that crop up on return after return, for improper deductions and credits, and for the correct tax rates. What's more, the IRS also routinely checks returns to make certain that income that is supposed to be reported actually shows up. When the income information is sent to the IRS on computer tape, the agency matches the data to the proper return 100 percent of the time.

When a problem shows up, the IRS usually sends a bill or a refund check. Because the computers have become so sophisticated in identifying and correcting these relatively minor errors, the IRS doesn't need to audit as many returns as in the past.

The statistics also do not tell you that although only 1 percent of all individuals are audited, your chances of being audited are far greater if you report income of more than $50,000 a year, derive your income mainly from the operation of a Schedule C proprietorship or claim sizable deductions and credits in relation to your total income.

You should act as though you were going to be audited every year. With complete personal, business and investment records on hand, you shouldn't care if the IRS comes to call.

Help At The Fare Box

Take the bus, train or subway to work, and the IRS may pick up part of the tab. Employers each month may give their employees up to $15 ($180 a year) worth of tokens, vouchers, discounts on transit passes and reimbursements to cover the cost of commuting by public transit. This fringe benefit is deductible by the employer and need not be included in employees' income.

Taxing The Children Of Divorce

Last year, for the first time, children under the age of 14 were taxed at their parents' highest marginal tax rate on their unearned income (dividends, interest, investments) in excess of $1,000.

Problems developed in cases of divorced parents who were unwilling to provide the necessary financial information to their children (and, obviously, to their former spouses). Rather than impose unreasonable penalties on children for failing to report these taxes properly, the IRS says it will waive its penalties as long as a reasonable estimate is filed on Form 8615 and an amended return is sent as soon as accurate information is available.

Look Again (Shudder) At Your W-4

The IRS promises to be much tougher in imposing penalties for underpayment of estimated tax this year. For 1987, you could escape the underpayment penalty by paying, through income-tax withholding and quarterly estimated-tax payments, an amount equal to your 1986 taxes or 80 percent of your 1987 tax bill. Because of problems with W-4 withholding forms, the IRS decided to waive the penalty in many cases.

This year, it's a different story. The IRS thinks that taxpayers have had sufficient time to familiarize themselves with the form. This year, you must cover at least 90 percent of your tax bill (or pay at least as much as your 1987 taxes) to avoid the penalty.

You should take time now to adjust your withholding. If you find that it needs to be increased in order to cover a shortfall in your tax account, file a new W-4 with your employer. NB

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PHOTO: MATT BRADLEY

Janet Jones, owner of a successful Little Rock, Ark., real-estate agency, says her traditional Southern upbringing has been an asset in her business.

Janet Jones is 48, married for a second time and the mother of two daughters in their early 20s. Her story begins like one that many Southern women of her generation could tell:

"I grew up in a very, very loving home; I had the warmest, most loving mother and dad. I grew up being told by my parents every day that I was a wonderful, worthwhile person. I think I grew up with a lot of warm feelings for people in general. I also had a strong daddy who felt that women should be taken care of. So I grew up with kind of a 'dumb act,' too, because I knew that if I played helpless, somebody else would take care of me. I went from a father who took care of everything to a husband who took care of everything."

She did not contemplate a career: "In my home, as I grew up, there were only a couple of things that my father thought it was appropriate for a young lady to do. One was to teach school, and the other was to stay home. My daughters have all kinds of ideas of what they want to do with their lives; I didn't. I was a junior in college; I didn't have a major, and my parents made me take education courses. They said, 'You might want to teach some day.' I didn't really plan to."

But then Jones' life took some turns that few women who grew up in Arkansas in the 1940s and 1950s were prepared for. First, she went through a divorce that left her, when she was in her mid-30s, with two young children to support. Then, in 1974, she took her first real job, selling for a Little Rock real-estate agency. By the time that agency broke up, 5½ years later, Jones was selling more than $5 million worth of residential property a year.

She started her own agency, the Janet Jones Company, in 1980. Now it is one of the strongest agencies in Little Rock's most prestigious neighborhoods, with sales that Jones expects to reach $30 million this year. That is an impressive figure for Little Rock, where the median sales price for an existing home in the past 12 months was only $75,000 (far below the $180,000 or more in New York, Boston and parts of California).

After her divorce, Jones started thinking about pursuing a career. "I was growing, gaining some confidence and ready to step out, whereas I hadn't been a few years earlier. I was at a party, and this cute girl said to me: 'Oh, you ought to come sell real estate. We're all having so much fun. We don't work very hard, and we make lots of money.' I thought, gosh, maybe I could do that, too."

Once Jones went to work in real estate, it turned out that her upbringing had masked a fierce drive to succeed. "People used to call me a workaholic," she says. "Sometimes some of the people who worked with me would say, 'How come you have all these prospects, and I don't?' I would say, 'I choose to work, and you choose to play tennis.' I had an insatiable appetite to call all the people and sell all the houses and stir up all the business.

"For instance, a new house would come on the market, and it would be 5:30, and everybody else would go home, and I'd say, 'Ah! A new house!' And I'd start looking through my book for who'd want this new house, and I'd call them all. Everybody else would get to the office the next morning, to get ready to start calling their people, and I'd already sold the house."

For her, she says, being raised as a typical Southern girl made it easier, not more difficult, to succeed in business: "I spent all my life wanting people to like me, and wanting to be nice to people so they would like me. That translated really well into a commission-sales business."

In residential real estate, "you're helping people in a very important, intense time in their lives," Jones says. It can be "a very happy time—it may be a marriage, a new baby, a promotion, a new job, moving up or finally fulfilling a dream they've always had to have a certain type of home for their family. On the other hand, it may be a sad time, when someone has died, or it may be a divorce, a lost job or bankruptcy. There are very few of these situations that don't have a lot of emotion in them, one way or another. I enjoy that. I enjoy having a slice of people's lives."

Jones now has 20 agents. Competing agencies have many more, but Jones has about as many as she wants because, she says, "I want to feel that a potential buyer or seller gets the same kind of quality, caring service from us no matter what agent [that client] gets." She adds, "I think if we get a lot bigger, I'm not going to have as much

awareness of what these agents are doing."

Her more predictable life now is a change from the days when "I had stirred up so much business, my phone rang off the wall. I couldn't eat a meal, I couldn't go to sleep, I couldn't sleep in the morning, because I had called so many people and had listed so many homes for sale.

"I had to be able to jump and run."

Running out to meet a client was harder when her daughters were younger, she says, but "my children were very supportive; they would go with me. I used to take them to school, and they'd get out of the car and say, 'Sell a house today, Mom!' And when I'd pick them up, they'd say, 'Did you sell a house?' I'd let them put the 'sold' stickers on our houses. It still makes me sad some days, because they tell me that I'd call and say I'd be home in 30 minutes, and they would laugh, because they knew that meant an hour and a half.

"As they got older, a lot of times they said to me, 'You've been a role model for us that is closer to the world that we're going to live in.' I think they've been proud of what I've done."

The Gentle Art Of Sailing

One day, shortly after Suzanne Pogell broke up with her boyfriend and regular sailing companion, she drove across the Chesapeake Bay Bridge, near Annapolis, Md., and looked sadly at the boats below. "Well, I guess I won't be doing much sailing any more," she thought.

Pogell was an adequate sailor but was not keen about venturing out on her own. Her boyfriend had always played the skipper, and she thought she had lost touch with her sailing skills. To reclaim her own passion for the sail, the wind and the sound of halyards clanking against the mainmast, Pogell decided to take lessons.

"My instructor screamed at me," she remembers. The unnecessary belittling—which she found common in the sailing world—along with her sense of loss at having broken up with her sailing partner, gave her the idea to establish Womanship, Inc. It is an Annapolis-based sailing school that uses gentle, affirming teaching techniques to help give women independence before the mast.

"Sailing has always been a male-dominated sport," Pogell says. "Womanship provides a fun atmosphere for women to get together without having to buck all that macho stuff that happens on boats. It's alarming that something that is recreation is not fun for a lot of people. In a Womanship course, the students learn by doing. They're allowed to make mistakes. And when they make a mistake, we have a good laugh about it, correct it and show them how not to do it again."

Pogell, 48, started Womanship three years ago, after working as public-affairs director of Anne Arundel Community College, in Maryland. Her initial staff was one Coast Guard-licensed instructor. Since then the company has grown to a full-time staff of four and 70 part-time instructors—all women, all Coast Guard-licensed and some of them graduates of Womanship. They work out of Annapolis and four other locations: the Tampa area of Florida; Virgin Gorda, Virgin Islands; San Juan Island, Wash.; and Long Island Sound.



PHOTO: MANUELLO PASANELLI—WOODWIN CAMP

Suzanne Pogell (in blue T-shirt) of Annapolis, Md.-based Womanship greets a class before an intensive—but soothing—afternoon of sailing instruction on the Chesapeake Bay.

Pogell won't disclose her company's revenues but says her gross sales have increased sixfold since 1985. More than 2,000 students have taken a Womanship course, and she has a mailing list of 15,000 who have heard about Womanship through boat shows and the media.

Pogell wants her students to "learn about every aspect of the boat, and I want the learning to be fun."

The boats she's talking about are high-performance cruisers, 27 to 44 feet long. Pogell exposes the students to all of the cruising sailboats' systems, on deck as well as below deck, where women have traditionally been relegated to housekeeping afloat. Her courses last up to nine days and are designed so that the student eventually can skipper her own yacht.

Pogell offers her students yet another avenue for independence—a practical route to owning a yacht. If a student buys a new 27-foot C&C sailboat or a Monk 36 trawler and lets Womanship use it through a preapproved chartering company, the charter income will cover the principal, interest, insurance and slip fees.

Womanship now teaches couples as well as women, and Pogell sees to it that reinforcing a sense of individual ability runs like an undercurrent throughout every course. "It's most important to show the students how capable they really are of achieving their goals," says Pogell. "It goes well beyond sailing. That goes for me, too. As tough as this business is, it has given me a greater sense of confidence and good feeling for what will work. I also never knew I had so much energy and endurance."

—Martha I. Finney

Low Riding, High Flying

They both loved cycling, but they didn't care much for those hard little seats and those thin, bone-jarring wheels on their 10-speeds. Out of their discomfort, Brian Stewart, 39, and Mike Lofgren, 38, found the inspiration for a new cycling experience and an unusual recreational vehicle, the Brike.

The Brike—its name was created from the first names of its two inventors—is a pedal-powered, three-wheeled, recumbent cycle maneuvered by leaning the body. The rider sits close to the ground in a nearly reclining posture that is said to reduce wind resistance. The Brike's pedals are attached to the front wheel, the three 20-inch wheels have wide tires, and it has a coaster brake.

In 1987, the company's second year of operation, Brike International, Ltd., in Portland, Ore., posted revenues of almost $1 million from sales of 7,500 cycles. They retail for $150 to $250 each, with prices varying for children's, teenagers' and adults' models. The company's goal is to sell 50,000 to 100,000 Brikes annually by its fifth year.

Friends since they met at the Oregon Department of Fish and Wildlife in 1976, Lofgren, with a degree in mechanical engineering, and Stewart, with a degree in applied science, pursued a number of ventures, ranging from manual labor to golf-course development, but without much luck. By 1983, the two were living in a low-rent trailer on a beach in San Diego. That's when a combination of curiosity, technical savvy and dissatisfaction with 10-speeds wrought the first Brike, made from junk bicycle parts.

"Before it was even completed," Stewart says, "kids from all over the beach were hanging around the trailer. When they began skipping school, just so they could practice on it, we realized we had created a viable product."

Lofgren and Stewart soon learned that it wasn't enough to be successful innovators; they had to become successful businessmen. Their story reads like an M.B.A. case study: They raised investment capital, developed a manufacturing operation in Taiwan and survived a battle with the management team brought in to run the business.

Oregonians Brian Stewart, left, and Mike Lofgren invented a three-wheel sport cycle called the Brike (from a combination of their names) that is starting to catch on in Japan.



PHOTO: BRIAN DRAKE—PICTURE GROUP

Against the entrepreneurs' better judgment, initial investment capital was being used by the management team to attract additional investors and not for manufacturing the product. "We knew we'd be broke in three months if things didn't change," says Lofgren.

This conflict grew into a nasty battle that resulted in Lofgren and Stewart regaining management of the company. The experience taught them to trust their own judgment.

In the spring of 1987, Takashi Aoki saw a Brike on an Oregon beach. Aoki, the president of Hayabusa Company, Ltd., a Japanese entrepreneurial conglomerate with interests ranging from real estate to new-product development, believed that the next Japanese trend would be toward health, recreation and fitness. He had come to the United States looking for an innovative product that he could use to capitalize on this trend. He seized upon the Brike.

"It was pretty incredible," Stewart says. "We were down to our last $1,000 when we got a call from this guy ... saying he wanted to buy the exclusive rights to distribute the Brike in Japan. Two weeks later, we were in Osaka."

As Japanese tradition often dictates, Aoki wanted their business negotiations to be based on a personal relationship. Arduous negotiating sessions were mixed with social occasions, to give him a chance to know Lofgren's and Stewart's "spirit."

"By the time we got to Osaka," Lofgren says, "what we had learned about how we wanted to do business really paid off. By being ourselves and sticking to our philosophy, we succeeded."

Under the deal that was struck, Hayabusa bought exclusive Japanese distribution rights for the Brike, guaranteeing to purchase $1 million worth of the product and to pay royalties.

The Hayabusa agreement was the turning point for Brike International, Ltd. Sales are going well in Japan, and interest in the Brike is growing in Europe, the Middle East and Australia. Lofgren and Stewart are awaiting patent approval for the High Brike, which will put the rider high enough off the ground to coexist with automobile traffic and will provide capacity to carry packages.

With their company now on stable financial footing and ambitious plans under way, Lofgren and Stewart both agree that their future is looking exceedingly "brike."

—Christina and Spencer Ward

COMMENTARY

Congressional Alert

Here, in brief, are important legislative issues along with suggestions from *Nation's Business* on what you should tell members of Congress about them. Addresses: U.S. Senate, Washington, D.C. 20510 and U.S. House of Representatives, Washington, D.C. 20515.

Public Financing Of Campaigns



PHOTO: FOLIO, INC.

Contrary to the claims of "reformers," taxpayer financing of presidential elections is a failure. Proponents of this entitlement program for politicians claimed it was necessary to curb large contributions, reduce opportunities for abuse and level the playing field. These goals have not been achieved.

Because of loopholes, large contributors still wield considerable influence. They raise hundreds of thousands of dollars to give to state party funds—"soft money" that will influence the election without being disclosed or counted against the mandatory spending limits for candidates.

Taxpayer funding has not decreased the time candidates spend raising money; nor has it stopped deficit-financed campaigns.

Seventy-seven percent of taxpayers decline to support taxpayer financing of presidential campaigns when given the opportunity to do so through the $1 checkoff on their federal tax forms. The presidential fund has been relying on reserves and will be nearly depleted after this year's election. The Federal Election Commission estimates that $186 million in federal funds will be spent in 1988, a nearly 250 percent increase since public financing began in 1976.

It is time to admit that taxpayer financing is a failed experiment in government-controlled democracy. Full disclosure of contributions and expenditures should continue, but taxpayer funding of campaigns should not.

Contact your representatives and senators to urge them to oppose all public financing of campaigns.

Davis-Bacon Reform



PHOTO: HENLEY & SAVAGE—UNIPHOTO

A House-Senate conference committee recently rejected an expansion of coverage under the Davis-Bacon Act, which requires contractors to pay "prevailing wages" on federally funded construction projects of $2,000 or more; such wages usually are based on union scales. The House had included the expansion, strongly supported by unions, in its defense authorization bill. The proposal would have increased the amount of Davis-Bacon coverage for all federal construction and given employees and unions new legal rights.

Before approving the expansion, the House defeated by a 204-210 vote an amendment to reform substantially the Davis-Bacon Act regarding military construction. Although it would have exempted from Davis-Bacon coverage only 12 percent of military-construction dollars, it would have exempted 75 percent of defense contracts.

Even though the amendment was defeated, the closeness of the vote should be seen as an encouraging sign that the effort to reform Davis-Bacon eventually will succeed.

Contact your representatives and senators to urge them to support reform, rather than expansion, of the Davis-Bacon Act.

Mandated Health Care



Efforts to impose federally mandated health-care coverage continue in Congress. A proposal introduced in the House would require employers to provide employees with a group health plan with benefits similar to Medicare and including maternity and child-care benefits; employers not complying would face a tax of $100 per employee per day. All employees working at least 17.5 hours a week would take part.

Under this measure, small businesses would not be excluded, and employers would be required to continue coverage for 60 days for employees whose termination was involuntary.

Employers provide 84 percent of U.S. employees' health-insurance coverage. Requiring such an expansion of coverage could force some businesses to close. Cost estimates for employers the first year alone range as high as $38 billion. A requirement covering all employers and virtually all employees oversimplifies the issue.

Contact your representatives and senators to urge them to oppose mandated health-care legislation and to support lower-cost alternatives that provide for choices in benefits.

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I am interested in growing mushrooms on a commercial scale. Where can I get a list of potential buyers, as well as statistics on mushroom production and consumption?
R.C., West Des Moines, Iowa

For information on starting a mushroom-farming business, write or call the American Mushroom Institute, 907 East Baltimore Pike, Kennett Square, Pa. 19348; (215) 388-7806.

To receive the latest statistics on mushroom production, send a stamped, self-addressed business envelope and $1.25 to the National Agriculture Statistics Service (NASS), Publications Office, Room 5829 South Building, U.S. Department of Agriculture, Washington, D.C. 20250. Ask for the pamphlet titled "Mushrooms."

To Incorporate, Or Not To Incorporate

What does it mean to be incorporated? What other options are there, and why should I choose something else?
R.Z., West Bountiful, Utah

In general, all businesses are organized as either sole proprietorships (one owner), partnerships or corporations. Of 18.1 million businesses filing tax returns in 1987, corporations accounted for 3.7 million, sole proprietorships 12.6 million and partnerships the remainder.

Choosing the right legal form requires study and careful consideration of three major variables: control, liability and taxes.

Sole proprietorships provide the maximum in flexibility and simplicity while giving the owner complete control. Many features of partnerships are like those of sole proprietorships.

Incorporation typically requires the assistance of a lawyer and other professionals, but it offers advantages. The major benefit is that company officers and owners have limited liability for company debts. There are also tax advantages.

For a quick description of the pros and cons of various types of organization, pick up a copy of *The Arthur Young Business Plan Guide*, published by John Wiley & Sons, $22.95. For a how-to guide to incorporation, get a copy of *How To Incorporate*, by Michael R. Diamond and Julie L. Williams, John Wiley & Sons, $17.95.



ILLUSTRATION: WILLIAM COULTER

Know Your Rights

We have just opened a cleaning franchise and need professional and personal financial-planning advice. Where can we find one source who can arrange for all our financial needs? Our franchisor has been helpful, but how can we be sure we're getting the help we're entitled to?
D. and V.G., Gaithersburg, Md.

A Small Business Institute program is a good place to start. Typically operated through universities, these programs provide intensive management consulting by involving teams of qualified business students who spend months analyzing your needs and then propose solutions.

You might also try a Small Business Development Center. Unlike the institutes, SBDCs enlist the services of experts who volunteer their time to solving small-business problems. Contact your local Small Business Administration office for more information.

The International Franchise Association also may be able to advise you. Contact the IFA at 1350 New York Avenue, N.W., Suite 900, Washington, D.C. 20005; (202) 628-8000.

To find out what aid you are legally entitled to receive from your franchisor, write or call the Franchise Rule Coordinator, Room 238, Federal Trade Commission, Washington, D.C. 20580; (202) 326-3128.

Shopping For A Marketing Pro

Our company sells business forms in a tricounty area of south Florida, and we are experimenting with national sales. How do I go about hiring a marketing specialist?
A.G., Miami, Fla.

The American Marketing Association in Chicago may be able to help you. Lydia Cruz, (312) 648-0536, extension 262, is compiling a book of job openings in marketing. It will be distributed to association members seeking employment in the field. Call her about listing your opening.

Also, you can place a help-wanted ad in the association's biweekly publication, *The Marketing News*. Call Sally Schmitz, extension 238, for information. Or write to the association at 250 South Wacker Drive, Chicago, Ill. 60606.

Consulting The Consultants

I am a licensed structural engineer and have wanted to start my own consulting business for a long time. Is there some organization or publication that can tell me how to set up and run an independent consulting business?
P.B., Rockville, Md.

The American Consulting Engineers Council sells publications pertaining to the field and would be happy to send you a list. It will take more than one publication to help you answer all of your questions. The group can supply an array of information, such as how to cut though red tape and how to obtain liability insurance.

Contact the council at 1015 15th Street, N.W., Suite 802, Washington, D.C. 20005; (202) 347-7474. Ask for the publications on financial management, project control and human resources. NB

How To Ask

Have a business-related question?

Write to: Direct Line, *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20062. Writers will be identified only by initials and city. Questions may be edited for space. All replies must be given in this column.

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THE NATION'S BUSINESS

Where I Stand

Results of this monthly poll are forwarded to top government officials in the White House and Congress.

1. Which Candidate Is More Qualified?

Each candidate claims the experience and ability necessary to be an effective President. Gov. Dukakis cites long government experience that has included service in the state legislature and being elected to three terms as chief executive of Massachusetts. Bush points to his business career, service in the House of Representatives, high-level appointive federal positions and the vice presidency. Who is more qualified to serve as Chief Executive of the United States?

2. Which Would Reduce The Deficit More?

The candidates differ on the best approach to deficit reduction. Bush pledges that he will not raise taxes and will eliminate the deficit through a "flexible" spending freeze in which spending increases would be held to the rate of inflation, with Social Security and debt interest exempted. Dukakis says he would seek tax increases only as a last resort, would make "tough choices" on spending—imposing cuts to offset increases for new programs—and would strengthen the Internal Revenue Service's ability to enforce collection laws. Which candidate do you think would be more successful in reducing the federal budget deficit?

3. Which Would You Vote For At This Time?

Both candidates declare that the health of small business and the welfare of all Americans are linked. Bush campaigns as President Reagan's partner in implementing policies that have resulted in nearly six years of growth that includes an unprecedented entrepreneurial boom. Dukakis says that his policies produced the "Massachusetts miracle" of rapid economic expansion and high employment and that he could achieve similar results on a national scale as President. What is your decision: Will you vote for Bush or for Dukakis?

Verdicts On August Poll

Here is how readers responded to the questions in the August issue.

	Yes	No	Undecided
Should Congress create a child-care entitlement?	9%	87%	4%
Would even a limited federal role in child care be acceptable?	33%	58%	9%
Should Congress support child care through income-tax credits?	37%	53%	10%

Send in your vote on the inserted postpaid card. Your views on any of these questions are also welcome as letters to the Editor, Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062.*

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Jumpin' With Symphony Sid

By Harry Bacas

An ugly factory dispute led Sidney Harman to transform the way he runs his business. "It made me recognize an anomaly in my life, and I determined to be done with it," says Harman, chairman and chief executive officer of Harman International Industries.

As a measure of his success in eliminating that "anomaly," his Washington-based firm is today one of the wonders of industrial America. It is thriving in an electronics industry that most U.S. companies abandoned to the Japanese. It is manufacturing at home and selling abroad. It will chalk up a half billion dollars in sales this year, and it is still growing.

Harman International's 17 companies manufacture professional and consumer audio and video equipment under names like JBL, EPI, Concord, Infinity, Pyle and the original, Harman-Kardon. Harman is the world's largest loudspeaker manufacturer. It produces electronic components from CD players to projection television sets and manufactures speakers and complete auto-stereo systems for Ford and Chrysler. It has distribution companies in France, West Germany, the United Kingdom and Japan. Although it does most of its manufacturing in the United States, 48 percent of its sales are overseas.

Harman, 70, was 20 years younger when the "anomaly" struck him. At that time he was not only running his own business, but also serving as the full-time president of the Long Island, N.Y.-based Friends World College, an experimental institution, affiliated with the Religious Society of Friends.

"I was moved by the Quaker view of education," he says. "The Quakers see the teacher-student relationship not as a general issuing orders to the troops or a banker dispensing loans to borrowers, but more like two people sitting on opposite ends of a log. At the college I presided over a program centered in the student. The student was supposed to be responsible for his own life, responsible for his own curriculum. . . .



"Your product has to have distinction, differentiation and quality," Harman says. That is why his companies "roll their own"—do their own manufacturing.

PHOTO T. MICHAEL KEZA

Can a U.S. manufacturer of audio and video gear compete with the Japanese on their home ground? Ask Sidney Harman.

"Then I began to compare these ideas with the conventional way I was running my own business, and I realized I was living an anomalous life."

The labor dispute that brought all this to a head was at Harman Automotive in Bolivar, Tenn., which made remote-control exterior mirrors for cars.

At 10:15 each night, a buzzer would signal the second shift's coffee break. One night the buzzer didn't sound. Managers had decided, without telling the workers, that they would get a little more production by holding the buzzer until 10:45 p.m.

The workers didn't wait. They shut down their machines at 10:15. Management said they had no business stopping until the buzzer sounded. Workers said 10:15 had always been coffee-break time—nobody had told them of a change. Tempers mounted, and managers started firing workers for insubordination. The plant union threatened legal action. Workers refused to work.

Harman rushed to Bolivar to meet with management, workers and the union. He told workers and managers: "We've got to develop a way to deal with this. There must be a relationship of mutual support, mutual trust."

Eventually a cooperative system evolved at the plant that became a model of industrial relations. Production emphasis shifted from quantity to quality; any worker could stop the line if something was not right. Problems of drug use and alcoholism dwindled. Productivity rose.

Harman no longer owns Harman Automotive, but he continues to develop the idea of participatory management. In his factories, workers help set quotas, contribute production improvements and assist one another if something needs fixing. He says his companies, each with its own style and organization, share a culture that includes a sense of individual worth.

Harman International does its own manufacturing, rather than designing and marketing products made by other companies. "Your product has to have distinction, differentiation and quality, and that arises from doing it yourself."

Born in Montreal in 1918, Harman graduated in physics from the City College of New York and, in 1939, took an engineering job in New York with the David Bogen Company, where he helped design public-address systems. After 14 years he was running the firm.



PHOTO: T. MICHAEL KEZA

Harman has been making pace-setting audio equipment since 1953, when he and Bernard Kardon set up a plant in Manhattan.

He had a wife and four children and a home in the Forest Hills section of Queens. He loved reading, boxing, tennis and music. At night he liked to play records. He used a transcription turntable borrowed from a radio station, a modified Bogen amplifier and a big triaxial speaker. Sometimes Bernard Kardon, chief engineer at Bogen, joined him, and the two cranked up the sound on Shostakovich's Fifth Symphony until the walls rattled.

In 1953, Harman and Kardon gave up their salaries and left Bogen to form their own company, dedicated to producing hi-fi equipment. Each put in $5,000. They set up a plant in lower Manhattan, where they manufactured a line of high-quality amplifiers and receivers for the Radio Shack chain under the name Realist (later changed to Realistic) and then their own line under the name Harman-Kardon.

The business was an enormous success. Two years later, when Kardon wanted to retire, Harman says, "his $5,000 was worth $300,000." Harman took the company public then, to raise the money to buy Kardon's share, but soon took it private again.

In 1961 he invested in Jervis Corporation (which owned the plant in Bolivar) and formed Harman International. As mounting Japanese imports squeezed competitors out of the U.S. electronics business, Harman continued to manufacture his own products and acquired other companies. In 1969 he bought JBL, a prestigious manufacturer of loudspeakers for theaters and homes.

When Harman accepted President Carter's appointment in 1977 to be under secretary of commerce, he sold his companies to Beatrice Corporation to avoid conflicts of interest. He moved to Washington, where he still lives. After two years he left the government and devoted himself to writing, lecturing and consulting.

In 1980 Harman bought back most of his companies from Beatrice. Harman-Kardon was not included; it had been sold the year before to a Japanese firm.

In 1985 Harman reacquired Harman-Kardon under an agreement that allowed the Japanese manufacturer to continue producing the line for him for three years. But he is already building a state-of-the-art electronics plant on Harman International's 44-acre manufacturing campus in Northridge, Calif., to produce the Harman-Kardon line.

Harman International, whose companies' annual sales were $80 million when Harman bought them back from Beatrice, took in $327 million last year and is headed for $500 million this year. Earnings before taxes grew from $7.5 million in 1986 to $15.1 million in 1987. He took the company public last year.

After more than three decades in business for himself, Harman has developed some definite ideas about what leads to success. His advice to entrepreneurs:

"Know your name. Know what you are about. Avoid specialization and expertism. Learn how the whole thing works. Be daring but not reckless. Calculate the risks before you jump.

"Care about what you do. If you do, running a business is the most enjoyable experience in the world." NB

COMMENTARY

Editorials

Despite all the media doom and gloom, there has been no depression, no recession, no international economic crisis.

Selling This Economy Short Is Not A Very Wise Investment Decision

A year ago this month an economic Armageddon seemed imminent. The Dow Jones Industrial Average had plunged 508 points in a single session, and most of the media coverage proclaimed, "The end is at hand."

"Fear and panic of historic proportions overwhelmed the stock market," one major newspaper reported. A top official at a leading brokerage house said, "What we have is an economic crisis of international proportions." A prominent economist declared, "Today is the start of a recession."

There's no doubt that the heavy losses in stock values had tragic consequences for many investors, and the impact on the lives and plans of those individuals was very real. But there has been no depression, no recession, no international economic crisis. Fears that the market would continue its free-fall were not realized. The economic recovery that started in November, 1982, remained strong and will be 6 years old next month. Employment is at a record high both in absolute numbers and in the percentage of the adult population holding jobs. The nation's manufacturing industries, the subject of widespread obituary notices in recent years, have grown substantially stronger in the past year. Overall corporate earnings are healthy.

Such developments traditionally flash "buy" signals. But, although the Dow Jones average has generally remained above the 2,000 level, compared with the 1,738.74 level it reached October 19 of last year, the market has shown few signs of the exuberance of the first eight months of 1987.

The trauma of the market plunge is obviously a major factor in the unwillingness of investors to return to the market in large numbers. Many worry about another major fallout.

But there is another, highly ironic ingredient in the recent drift on Wall Street. Developments that once would have sent the market soaring now send it down.

When unemployment falls, the market reacts adversely from fear that labor shortages will trigger inflationary wage increases. (Conversely, the market soared 52 points in early September on a report that unemployment had inched up.) The Federal Reserve Board tightens credit because it thinks the economy is expanding too fast, and the market drops because investors worry about higher interest rates.



PHOTO: STEPHEN FERRY—GAMMA LIAISON

Reports of healthy corporate earnings, traditionally prime movers in investor activity, have been largely ignored as the bad news is allowed to dominate.

But the widespread predictions of imminent economic disaster heard a year ago have long since faded. There are signs that investors might be getting ready to return to the market in increasingly significant numbers. Individual and institutional investors will, of course, decide for themselves what is the best time to re-enter the market.

But this first anniversary of the events of October 19, 1987, offers an opportunity to reflect that it's not a very wise investment decision to sell short an economy that has shown the strength and durability of the one this country has enjoyed for the past six years.

Election Pressures On Congress Pose A Threat To Business

The 100th Congress has entered its final phase, and, as far as business is concerned, adjournment cannot come too soon. The longer the lawmakers remain in session during the height of the 1988 election campaign, the more politics will influence their decisions on bills that hold high potential for damaging the economy.

Richard L. Lesher, president of the U.S. Chamber of Commerce, says of the danger: "A number of pending bills would produce a multibillion-dollar drag on the economy and seriously threaten our record expansion. [The period] of intense political activity before an election is a time when many members of Congress cave in to narrow, special-interest pressures."

Among the pending measures of concern to business are those that would mandate parental leave, health care and other benefits, impose federal controls on child-care programs and raise the minimum wage as much as 50 percent.

Passage of those or other bills that would increase business' operating costs is a surefire way to sabotage a healthy economy. Business should heed the U.S. Chamber president's advice: "We must all be on guard and let our senators and representatives know that they must hold the line. All our economic futures are at stake." NB

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